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Report of the External Auditor for 2019

Report of the External Auditor on the accounts of the United Nations Industrial Development Organization for the financial year 1 January to 31 December 2019

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

LETTER OF TRANSMITTAL

6 April 2020

Dear Mr. Palau,

I have the honour to present to the Forty-eighth Industrial Development Board, through the thirty-sixth 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 2019.

I record my appreciation to the Industrial Development Board for the honour and privilege to serve as External Auditor of UNIDO for the biennium 2018–2019.

Yours sincerely,

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

COMMISSION ON AUDIT
OFFICE OF THE CHAIRPERSON
20-130902191605

Mr. Senén Florensa Palau
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
APT	Accounts, Payment and Treasury Division
AR	Accounts Receivable
ASHI	After Service Health Insurance
BC	Business Continuity
BMS	Building Management Services
CATS	Cross-Application Timesheet System
CIK	Contributions – in Kind
CISO	Chief Information Security Officer
CMO	Directorate of Corporate Management and Operations
COA	Commission on Audit
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	Country Programme
CRP	Conference Room Paper
DG	Director General
DGB	Director General’s Bulletin
DI	Declaration of Interest Policy
EA	External Auditor
EAO	Ethics and Accountability Office
EB	Executive Board
EIO	Office of Evaluation and Internal Oversight
EPR	Department of External Relations
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
ETR	Department of External Relations
FAM	Fixed Asset Module
FCR	Full Cost Recovery
FD	Financial Disclosure
FECO	Foreign Economic Cooperation Office
FIN	Department of Finance
FMT	Financial Management of Technical Cooperation Division
FP	Focal Point
FRM	Fraud Risk Management Framework
FS	Financial Statements
FX	Foreign Exchange
GA	General Assembly
GAD	Gender and Development
GBP	Global Banking Project
GM	Grants Management module
GS	General Service
GSL	General Services and Logistics Division
HCFC	Hydrochlorofluorocarbon
HLCM	High-level Committee on Management

HPMP	Hydrochlorofluorocarbon Phase-out Management Plan
HQ	Headquarters
HRM	Human Resource Management
IA	Internal Audit
ICF	Internal Control Framework
ICT	Information and Communications Management
IDB	Industrial Development Board
IDF	Industrial Development Fund
INTOSAI	International Organization of Supreme Audit Institutions
IOC	Increment Operating Cost
IOD	Internal Oversight Division
IOS	Office of Internal Oversight
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IRPF	Integrated Results and Performance Framework
ISA	International Standards on Auditing
ISID	Inclusive and Sustainable Industrial Development
ISMS	Information Security Management System
IT	Information Technology
ITPO	Investment and Technology Promotion Office
ITS	Information Technology Services Division
IWG	Informal Working Group
JIU	Joint Inspection Unit
LFR	long form report
LVA	Low Value Asset
MAP	management action plans
MCIF	Major Capital Investment Fund
MEP	Ministry of Environmental Protection
MOU	Memorandum of Understanding
MPD	Montreal Protocol Division
MS	Member States
MTPF	Medium-Term Programme Framework
MUFG	Mitsubishi UFJ Financial Group
NFS	Notes to Financial Statements
OD	Office of the Director
ODG	Office of the Director General
ODS	Ozone-Depleting Substance
OMD	Office of the Managing Director
OSS	Department of Operational Support Services
P&B	Programme and Budgets
PAD	Talent Planning, Acquisition and Development Division
PBC	Programme and Budget Committee
PCP	Programmes for Country Partnership
PM	Project Manager
PO	Purchase Order
PPE	Property, Plant and Equipment
PPF	Department of Programmes, Partnership and Field Integration

PPM	Portfolio and Project Management
PRO	Procurement Services Division
PS	Professional Staff
PSB	Property Survey Board
PSC	Programme Support Costs
PTC	Directorate of Programme Development and Technical Cooperation
QAF	Quality Assurance Framework
QUA	Quality Monitoring Division
RAC	Room Air-Conditioner
RB	Regular Budget
RBM	Results-Based Management
RFP	Risk Management Focal Person
RM	Risk Management
RMC	Risk Management Committee
RTLS	Real Time Location System
SAVCCA	Special Account of Voluntary Contributions for Core Activities
SIC	Statement on Internal Control
SMART	Specific, Measurable, Attainable, Realistic, and Time-bound
SPQ	Office of the Strategic Planning, Coordination and Quality Monitoring
SRM	Supplier Relationship Management
TC	Technical Cooperation
TOR	Terms of Reference
UN	United Nations
UNGA	United Nations General Assembly
UNIDO	United Nations Industrial Development Organization
UNTFAS	United Nations Task Force on Accounting Standards
VBO	Vienna-based Organization(s)
VIC	Vienna International Centre
VIM	Vendor Invoice Management
WG	Working Group

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 second and final 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 seventeenth 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. In this report, we have detailed 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 2019, 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 2019.

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.

In addition to the audit of financial statements, we reviewed the Enterprise Risk Management, Fraud Risk Management, Procurement, and audited the stage I of the "Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China", to add value to the management and governance of UNIDO.

Summary of key findings

The more significant observations resulting from our audit are briefly summarized as follows:

Audit of financial statements and account balances

(a) The utilization rate for Regular Budget is decreasing and unutilized balances are surrendered to Member States in compliance with Financial Regulations 4.2 (b) and (c);

(b) The voluntary contribution receivables due from 2018 and last three quarters of 2019 totalling €13.252 million remain uncollected as at 31 December 2019;

(c) Long-outstanding unprogrammed voluntary contributions receivable – advances dated as far back as 2012 despite constant engagement with donors, drawbacks such as political issues, and donor indecision or lack of instruction on which projects to apply their contributions restrains its programming;

(d) The accuracy of the programmable balances is verified manually by CMO/FIN/FMT, which makes the monitoring of programmable balances as well as the preparation of corresponding reports tedious and inefficient;

(e) Post-employment benefits as at 31 December 2019 totalled €233.900 million, of which €206.250 million, or 88 per cent, pertaining to After Service Health Insurance (ASHI), remained unfunded and UNIDO continues to manage the plan on a pay-as-you-go basis;

Financial reporting and processes

(f) The implementation of the Global Banking Project (GBP) is not maximized particularly for vendor payment due to resolution on establishing a unit to perform the inputting, editing and verifying of the required bank master data for the creation of new vendor accounts in the SAP/ERP system;

(g) The confirmation of delivery and not the actual delivery nor the acceptance date of the asset were considered in recognizing assets, hence procured assets were not recognized on time, including the corresponding depreciation;

(h) Additional cash advances were granted despite the absence of delivery for prior advances and there were advance payments with no delivery for more than a year;

(i) Assets that were already transferred to beneficiaries, disposed of or no longer within the responsibility of UNIDO are still carried in accounting records;

(j) UNIDO IPSAS Manual does not explicitly mention and includes six IPSAS, which are effective for implementation as of December 2019;

Enterprise risk management

(k) There is a need to have a clearer ERM implementation trajectory and accountability through formal policies, workplans and ERM governance. Building a risk culture and nurturing risk orientation in processes and management decisions needs a strong foundation, which requires that the ERM policies and guidance are firmly established;

Fraud risk management

(l) There was no explicit, stand-alone Fraud Risk Management Policy although some of its elements are found in its ICF and to a greater degree, in the draft ERM policy and process. The fraud risk taxonomy was not further enhanced to facilitate risk assessment, communication and reporting. The policy on Financial Disclosure and Declaration of Interest needs to be enhanced to ensure its effectiveness. And the various fraud reporting lines currently in place within UNIDO are fragmented owing to unclear avenues on how the reported fraud allegation or incident from other organizational levels will reach EIO's desk, being the custodian of the evaluation and investigation of corporate fraud complaints and allegations;

Procurement

(m) The procurement function has evolved from a supporting non-strategic activity to a critical role in regular operations and programme management and salient to it is contract management. The procurement demands, specific roles and responsibilities of procurement process owners and the procedures for monitoring vendor performance as well as criticality of delivery dates in the implementation of contract management including LTA process should be clearly defined. Moreover, there is an evident need to establish and provide guidelines for a more coherent and coordinated approach to sustainable procurement;

Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I – Project review

(n) The target completion date of the project was in calendar year (CY) 2015 but was initially reset to CY 2019 and further extended to CY 2020 for all the tranches. One cause is the unreleased funds for the IOC, which beneficiaries are not keen on claiming as they are now using alternative new technologies. This means that the production lines that were introduced in the HPMP project have become idle with the possibility of not being used at all, translating to obligated but unexpended funds of approximately USD 14 million or about 18 per cent of the total USD 75 million project cost;

(o) Challenges beset the project especially in enhancing monitoring and assessment mechanisms, processes and outputs as manifested in the absence of an established timeline for specific activities, incomplete progress reporting of status/accomplishment of each grant, unavailability of competent information showing if project is still on target, and changes in the project's timelines that were not presented in the overall schedule to guide project implementation.

Summary of recommendations

We provided the following significant recommendations on the improvement opportunities noted which we request to be implemented within 2020. These are discussed in detail in the succeeding paragraphs of this report:

Audit of financial statements and account balances

(1) Make a strong representation with Governing Bodies – PBC and IDB in 2020 for the amendment of the provisions of the financial regulation 4.2 (b) and (c) with the end view of allowing the unencumbered fund balance to be retained and be carried over to the next budget periods;

(2) Utilize the mechanisms within the SAP/ERP System to ensure an efficient and effective monitoring of receivables in 2020 and address the root causes of delays in collecting voluntary contributions;

(3) Present a course of action in 2020 to the Executive Board on the long-outstanding unprogrammed balances that would facilitate the programming of the funds for UNIDO projects;

(4) Provide a facility in 2020 to allow easier monitoring and generation of reports on programmable balances to aid efforts in programming the balances for UNIDO projects or activities;

(5) Continue deliberations in 2020 and come up with a proposal, comparable with other funding models within the United Nations system, where a partial funding for ASHI is set up to counter the risk of pay-as-you-go schemes, for discussion with the governing bodies. Actions should be time-bound to implement the recommendations;

Financial reporting and processes

(6) Fast-track the implementation of the GBP for appropriate vendors' payment by determining the best option on who should perform the inputting and validating of the bank master data and considering further the savings that can be realized and the internal control principle of segregation of incompatible functions, to achieve the benefits of the project to the optimum;

(7) Ensure the timely execution of confirmation of goods received in the SAP – FAM and Finance module to capture the correct capitalization date; which will guarantee the correct period of recording the asset procured and computing the necessary depreciation expense;

(8) Institute measures to obviate possible misuse and instances of long-outstanding advances such as regular reminders to suppliers of their obligations and providing pertinent clause in the PO/contract of the supplier's responsibility and corresponding penalty in case of default;

(9) Conduct technical skills and knowledge check on all users of the SAP procurement module who are involved in the creation of shopping cart, receipt of goods, payment, recognition of assets and monitoring to identify appropriate interventions that would reduce, if not eliminate recurring errors and monitoring lapses;

(10) Enhance processes relating to project status monitoring that would prompt the PMs to provide the information needed to derecognize assets that are no longer the accountability of the Organization such as those already transferred to the project beneficiaries, or assets that do not offer any economic benefits or service potential to the Organization anymore like those that are unserviceable or for disposal, either by preparing a separate report or incorporating the information in existing reports;

(11) Update the 2014 Edition of the UNIDO Policy Manual for IPSAS in 2020 to incorporate all IPSASs that have become effective and applicable to UNIDO as of December 2019;

Enterprise risk management

(12) **Concretize and formalize its ERM corporate policies supported with clear risk taxonomy and risk management procedures before the end of 2020 to warrant an unimpeded implementation of its ERM initiative;**

Fraud risk management

(13) **Craft a best practice fraud risk management policy within 2020 that will encapsulate all related policies including its Policy on Fraud Awareness and Prevention for a more focused and comprehensive management of its fraud vulnerabilities;**

(14) **Enhance its draft risk universe by expanding the fraud risk taxonomy and using the fraud schemes enumerated in its Policy on Fraud Awareness and Prevention to provide a more complete risk assessment criterion and a common fraud risk language thereby facilitating fraud risk communication and reporting;**

(15) **Enhance the substance of its Financial Disclosure and Declaration of Interest policy by ensuring that it covers submission timelines including its process; specific employees required to file the statements; related responsibilities of heads of offices; and, the verification process on the Declaration of Interest Statement, to strengthen the support of the exercise to fraud prevention and the preservation of interest of the Organization;**

(16) **Enhance the uptake process of fraud complaints and allegations at once, by streamlining the various fraud reporting channels and mechanisms to ensure the completeness of EIO's fraud complaints and allegations register and for more effective fraud response;**

Procurement

(17) **Improve its contract management by crafting specific policies and detailed guidelines that will reinforce the relative provisions in the Procurement Manual and incorporate contract performance monitoring, contract change management and remedies as well as the specific roles and responsibilities of contract managers;**

(18) **Ensure that the actual date of delivery of goods or services, which is an important period for contract management is properly established through specific policies or instructions to the PMs/AHs including the others who are involved in the e-procurement process to make certain that the:**

a. **Certificate of acceptance reflects the date the goods were physically delivered and accepted;**

b. **Confirmation in SAP is done immediately during or after the actual delivery and acceptance of the goods/services delivered and made available for use; and**

c. **SAP field for delivery date in the confirmation screen is updated/modified to reflect the actual delivery date as indicated in the certificate of acceptance.**

(19) **Enhance the process of establishing LTAs by considering the procurement demands of the Organization about the individual but nevertheless similar and repetitive requirements of the substantive divisions to actively promote the benefits of LTAs;**

(20) **Adopt LTA-related procurement guidelines to include specific roles and responsibilities of process owners on LTA implementation. The guidelines should also include monitoring tools, methods and data collection capabilities that will be used to determine and maximize the benefits of LTAs;**

(21) **Incorporate in the contract management document being developed clear and more concrete guidelines on monitoring vendor performance under LTAs and ensure that these are consistently applied to all vendors;**

(22) **Intensify its efforts in operationalizing sustainable procurement principles by including in its regular procurement processes concrete and identifiable activities that demonstrate practices for sustainable procurement;**

Hydrochlorofluorocarbon (HCFC) phase-out management plan in the room air-conditioner sector in China, stage I

(23) Address the challenges noted in project implementation by ensuring that appropriate strategies or action plans that will encourage/commit the beneficiaries to market the newly converted alternative products are established;

(24) Adopt robust mechanisms that will track the progress of project implementation and report on them on a timely and periodic basis to ensure immediate resolution/action on concerns/drawbacks that may arise; enhance the Annual Implementation Programme/Progress Report to provide an accurate reporting of the status of the project such that the targets based on key performance indicators are completely indicated and compared against the actual outputs/accomplishment to have a comprehensive view of the project status and an accurate decision base for the project;

(25) Require the presentation in the workplans of ODS phase-out targets for the specific tranche as well as the accomplishments of the previous tranche for the project implementers and other stakeholders to have a complete view of how the project is progressing towards its primary objective of phasing out ODS and to ensure effective monitoring;

(26) Ensure that changes to the project timelines are documented showing analysis as to the impact on the planned schedule to aid decision on whether there is a need to fast-track activities or re-evaluate baselines; and update the overall schedule reflecting the current/new schedule which should be communicated to all concerned particularly the project implementers as it would affect project implementation;

(27) Require the details of the activities as well as the corresponding timelines to be presented in the workplan for succeeding project stages, particularly those that are intended to be executed during the year relevant to the specific tranche to aid implementers in managing implementation, reporting the progress of implementation, and evaluating results consistent with the project's primary objective;

(28) Establish a reporting arrangement whereby details pertaining to the assets procured for the project such as quantity, value, condition and location are regularly and periodically reported for information of UNIDO, the donor and other stakeholders; and

(29) Develop a mechanism to monitor assets procured by subcontractors/partners and utilized for project implementation.

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 63 identified prior year's audit recommendations, 18 or 29 per cent were closed, 8 or 13 per cent were yet to be implemented and 37 or 59 per cent were with ongoing implementation. We encourage UNIDO to strategize and concentrate its commitments 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 121-year-old Supreme Audit Institution is an active member of the International Organization of Supreme Audit Institutions (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 38 years, 20 years of which as a member of the United Nations Board of Auditors.

2. The General Conference of 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 the 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 UNIDO as at 31 December 2019 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 regards 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.

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 external audit processes.

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 misstatements. The audit 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 EIO on the planned audit areas to avoid unnecessary duplication of efforts, and to determine the extent of reliance that can be placed on EIO's 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 memorandums 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. Audit of 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 2019, 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 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 several recommendations issued during our audit of the UNIDO 2019 financial statements 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 statements account analysis

1.2.1 Assessed contributions receivable

17. From presentation made by CMO/FIN/OD to the Informal Working Group (IWG) on PBC-related issues in February 2018, particularly on Unutilized Balances, collection of assessed contributions receipt was fluctuating and unpredictable. For calendar years (CYs) 2014 to 2017, the receipt of large sums of assessed contributions was consistently made during

the second quarter of the year and collections of current assessed contributions ranged from 87.90 to 89.60 per cent with more than 10 per cent for CYs 2014 and 2015 were collected during the last quarter of the respective year.

18. The utilization rate was decreasing from the bienniums 2014–2015 (92.7 per cent); 2016–2017 (92.3 per cent); and 2018–2019 (90.8 per cent) due to non-payment or delayed payment within a biennium or budget period and late payments of assessed contributions which is after the biennium. In 2019, the utilization rate increased to 96 per cent because of a conscious effort to increase utilization by UNIDO, considering the late payment history of certain MS and an effective collection strategy. As at 31 December 2019, Assessed Contributions Receivable totalled around €89 million, of which €71 million is due from former Member States.

19. From the foregoing, as identified in the same February 2018 presentation by the CMO/FIN/OD to the IWG, the impacts of budgetary constraints on the operations of UNIDO are: (a) Higher vacancy rate -15 per cent (P – 19 per cent and GS – 11 per cent); (b) Capacity constraints; (c) Reliance on Individual Service Agreement (ISA) holders for core function; (d) Deficiencies in risk management and internal control; (e) Insufficient monitoring; and (f) Integration of Medium-Term Programme Framework (MTPF) vs P&B vs. Integrated Results and Performance Framework (IRPF) for coordinated Results-Based Management system to contribute to the Agenda 2030. The vacancy rates in December 2019 however improved to P – 12.4 per cent and GS – 5.5 per cent

20. We noted that several improvement opportunities could not be implemented due to funding or resource constraints but resorting to work-around solutions, among others, these are: funding of post-employment liabilities to address future financial and operational risks, as at 31 December 2019 unfunded long-term liabilities amounted to €233,900,000; need for the adoption of any internationally accepted standards such as “ISO/IE 38500” providing guidance on an international standard for corporate governance of information technology; Need for a Chief Information Security Officer (CISO) to address major information security issues; and Establishment of a centralized unit to capture, enter and maintain vendor and bank master data into SAP.

21. **We recommended that UNIDO make a strong representation with Governing Bodies – PBC and IDB in 2020 for the amendment of the provisions of the financial regulation 4.2 (b) and (c) with the end view of allowing the unencumbered fund balance to be retained and be carried over to the next budget periods.**

22. **UNIDO Response:** Management agreed with the recommendation. There are already efforts to address the above-mentioned impacts on budget constraints particularly on Regular Budget where several discussions are still in progress with the Member States through the Informal Working Group on PBC-related issues to find solutions. A partial solution on UBs was decided last year allowing UNIDO prudent use of the Working Capital Funds to increase budget implementation and reduce the unencumbered balances of appropriations, however, this would in the long-run put the Working Capital Funds at risk.

1.2.2 Voluntary contributions receivable

23. Of the total outstanding voluntary contributions of €380.228 million, receivables due from 2018 and the last three quarters of 2019 totalling €13.252 million remain not collected as of 31 December 2019. Six of the 19 grants reviewed and confirmed with the Project Managers (PMs) are performance-based. Where under the performance-based funding principle, additional funds are provided to UNIDO based on results achieved in a defined time frame, in this case, performance is linked to funds disbursed.

24. We noted that monitoring of receivables can be done through the Accounts Receivable (AR) module and Grant Management Modules in the SAP/ERP system. The use of these modules could provide real-time information of complete outstanding receivable accounts that could be linked/shared with the Directorate of Programme Development and Technical Cooperation (PTC) for monitoring purposes and monitoring status of each created grant, respectively. Evaluation of the reasonableness of the project status, on whether donor or UNIDO caused the delay of the implementation, should have also considered to update not only the due date of the receivable accounts as aligned with the provisions of the agreement but also the performance of the concerned PM.

25. **We recommended that UNIDO utilize the mechanisms within the SAP/ERP System to ensure an efficient and effective monitoring of receivables in 2020 and address the root causes of delays in collecting voluntary contributions.**

26. **UNIDO Response:** Management agreed with the recommendation. A review of receivable accounts was made to estimate instalment due dates based on previous history, instalment plans and project status. Delay of the first instalment does not necessarily trigger delaying subsequent instalments.

1.2.3 Voluntary Contributions Receivable – Advance

1.2.3.1 Programmable balance

27. We noted that while some of the umbrella grant balances such as IDF have already been programmed for specific projects, the advance receipts would be adjusted by FIN/CMO/APT at the end of the year, however there are still unprogrammed funds, some of which date as far back as 2012. Of the 15 umbrella IDF grants sampled, there were 14 with programmable balances of USD 4,421,209.79 and €290,260.71 as confirmed by the Financial Management of Technical Cooperation Division (CMO/FIN/FMT) and one umbrella grant with a recorded advance receipt of €255,668.03 but zero programmable balance that requires an adjustment to revenue accounts.

28. Constant engagement with donors are undertaken, however, drawbacks such as political issues and donor indecision or lack of instruction on which projects to apply their contributions restrains the programming of the IDF and other similar voluntary contributions.

29. **We recommended that UNIDO present a course of action in 2020 to the Executive Board on the long-outstanding unprogrammed balances that would facilitate the programming of the funds for UNIDO projects.**

30. **UNIDO Response:** Management agreed with the recommendation. They indicated that the Department of Finance (CMO/FIN) and the Department of External Relations (EPR/ETR) would be the offices to present recommendations regarding long-outstanding unprogrammed balances. Such information will be made available to senior management including the Executive Board in the form of a Donor Management Dashboard as this would also support the Member State/Country engagement strategy in place. However, the decision to reprogramme unprogrammed (remaining) balances of earmarked funds rests with the respective donors.

1.2.3.2 Monitoring

31. The availability and utilization of funds can be tracked through the SAP-Grants Management (GM) module. While CMO/FIN/FMT monitors programmable balances, it takes considerable time to check all umbrella grants with programmable balances since monitoring of umbrella grants is done on a per grant or project basis and not on a per fund basis. On the other hand, while the CMO/FIN/APT prepares the Statement of Account from the system for donor reporting, the accuracy of the programmable balances still needs to be verified manually with CMO/FIN/FMT. This makes monitoring of programmable balances as well as the preparation of corresponding reports tedious and inefficient.

32. **We recommended that UNIDO provide a facility in 2020 to allow easier monitoring and generation of reports on programmable balances to aid efforts in programming the balances for UNIDO projects or activities.**

33. **UNIDO Response:** Management agreed with the recommendation. CMO/FIN and EPR/ETR are in the process of introducing new monitoring and reporting mechanisms such as a new Donor Management Dashboard, simplified statements for IDF and Trust Funds, as well as a pilot of IPSAS-compliant statements for selected donors for year-end 2020.

1.2.4 Long-term liabilities – After Service Health Insurance

34. As at 31 December 2019, liabilities for post-employment benefits totalled €233,900 million of which €206.250 million, or 88 per cent, pertain to ASHI. Payments for after-service medical costs totalled €3.460 million. The contributions to the ASHI plan remained at the same level as in previous years.

35. The post-employment benefits remained unfunded and UNIDO continues to manage the plan on a pay-as-you-go basis. The Informal Working Group of PBC noted that the report by the Secretary-General on managing after-service health insurance (A/73/662), reflected the recommendations of the Inter-Agency Working Group on ASHI, in which UNIDO participated. The report aims to harmonize ASHI across the United Nations system based on best practice and cost containment.

36. The Informal Working Group informed that the prior year's recommendation for UNIDO to consider setting a commitment date or target milestones in implementing the recommendations is driven by the position taken by the United

Nations General Assembly. Despite the current developments that recommendations by the United Nations Working Group on the funding options were not accepted by the GA at its recent meetings, the Informal Working Group committed to take up the issue on ASHI funding.

37. **Considering that the ASHI funding is an ongoing concern, we recommended that UNIDO continue deliberations in 2020 and come up with a proposal, comparable with other funding models within the United Nations system, where a partial funding is set up to counter the risk of pay-as-you-go schemes, for discussion with the governing bodies. Actions should be time-bound to implement the recommendations.**

38. **UNIDO Response:** Management agreed with the recommendation.

1.3 Improvements in financial reporting and processes

1.3.1 Global Banking Project

39. The Global Banking Project (GBP) which aims to fast-track the payment period to UNIDO staff, consultants and vendors was implemented as early as 2016. However, implementation of the GBP is not maximized particularly for vendor payment due to resolution on establishing a unit to perform the inputting, editing and verifying of the required bank master data for the creation of new vendor accounts in the SAP/ERP system. For centralized procurement and other payments for decentralized procurement that requires immediate payment, the CMO/FIN/APT – payment processing staff performs the input of the bank account details for the new vendor accounts. The current practice is done since only FIN/APT has access and expertise to enter and verify bank master data. This input function being performed by the CMO/FIN/APT is not in accordance with proper segregation of incompatible function since it is reviewing/verifying the transactions as a basis for its approval. However, management explained that no single person can perform both entering and verifying bank master data in SAP.

40. Management agreed that the ideal option would be the creation of the Centralized Unit who will perform the inputting and validating of the vendor’s bank account details. However, this did not materialize due to resource limitations. Instead they proposed that Project Managers/Assistants (for de-centralized procurement), responsible Procurement Officer (for centralized procurement) will be responsible for inputting the bank account details and the CMO/FIN/APT will do the verification process, as an interim solution, without compromising on internal controls.

41. The current challenge the GBP is facing, which is who should perform the inputting and validating of bank accounts, must be addressed immediately to realize the benefits of the project. In addressing the challenge however, UNIDO needs to consider one of the core guiding principles as identified in UNIDO’s Internal Control Framework.

42. **We recommended that UNIDO fast-track the implementation of the GBP for appropriate vendors’ payments by determining the best option on who should perform the inputting and validating of the bank master data and considering further the savings that can be realized and the internal control principle of segregation of incompatible functions, to achieve the benefits of the project to the optimum.**

43. **UNIDO Response:** Management agreed with the recommendation, but the implementation is contingent upon identification of appropriate resources.

1.3.2 Advances to suppliers

1.3.2.1 Confirmation of Delivery not the actual delivery nor acceptance date of the Asset

44. Confirmation means the goods were received and accepted by the PM. The confirmation is done in the SAP procurement module which automatically captures the encoding date as the date of confirmation. Uploaded confirmation prompts the recording of the asset delivered in the fixed asset register and consequently recognizes the assets in the books of UNIDO and triggers computation of depreciation.

45. During our review, we noted instances of late confirmation where several assets have been capitalized on a later date which the PM at times cannot avoid because of pressure of work. Had the confirmation been done during or immediately after the delivery date, the procured assets would have been recognized on time and computed with depreciation resulting in more reliable account balances.

46. **We recommended that UNIDO ensure the timely execution of confirmation of goods received in the SAP – FAM and Finance module to capture the correct capitalization date; which will guarantee the correct period of recording the asset procured and computing the necessary depreciation expense**.

47. **UNIDO Response**: Management agreed with the recommendation.

1.3.2.2 Grant of additional advances despite absence of delivery for prior advances and advance payment with no delivery for more than a year

48. We noted that additional advances for the same Purchase Order (PO) were granted even if there were no delivery/compliance for the previous advances. Likewise, additional POs were granted to the same supplier even if previous POs were not yet delivered.

49. We also noted that there was no strict mechanism against possible misuse and instances of long-outstanding advances, which may result from the leniency afforded in enforcing timeliness of the delivery of goods/services, to some suppliers. Useful mechanisms may include monitoring, regular reporting, and reminders or imposition of penalty in the contract on non-compliance with the terms/requirements of the PO/contract.

50. Generally, goods and services procured are paid for after receipt to ensure that the Organization is not put at a disadvantage in case of non-delivery, defective/incomplete items, unsatisfactory service and other eventualities that may hinder the supplier from fulfilling its obligation. Thus, in cases where advances are granted to suppliers, adequate checks should be embedded in the procurement processes to protect the interest of the Organization. Allowing late delivery defeats the purpose of granting advances or undergoing procurement processes if the items intended for procurement will not be delivered and used during the intended period.

51. **We recommended that UNIDO institute measures to obviate possible misuse and instances of long-outstanding advances such as regular reminders to suppliers of their obligations and providing pertinent clauses in the PO/contract of the supplier's responsibility and corresponding penalty in case of default.**

52. **UNIDO Response:** Management agreed with the recommendation.

1.3.2.3 Need to provide capacity-building activities to the PM assistants

53. We noted several instances that some procured goods and services were misclassified due to incorrect product category chosen on shopping cart. Also, several samples reviewed had confirmations with subsequent partial payments but eventually cancelled. Lastly, we noted instances where the goods requested for procurement in the SAP procurement module were encoded by lot. Deliveries could either be partial or whole, for partial deliveries, UNIDO will have in its books a fraction of asset, while for whole lot the specific assets that were delivered as one lot must be recorded individually, hence either way of delivery, classification and accuracy assertions relating to PPE at the transaction level and the completeness, and accuracy, valuation and allocation assertions at the account balance level is in question.

54. The errors noted are attributed basically to the lack of training and proper guidance of the staff tasked to encode in the SAP procurement module and the absence of regular monitoring of newly procured assets recorded in the system.

55. **We recommended that UNIDO conduct technical skills and knowledge checks on all users of the SAP procurement module who are involved in the creation of shopping cart, receipt of goods, payment, recognition of assets and monitoring to identify appropriate interventions that would reduce, if not eliminate recurring errors and monitoring lapses.**

56. **UNIDO Response:** Management agreed with the recommendation.

1.3.3 Asset derecognition

57. Part of the project closure exercise is the transfer of assets either to the intended beneficiaries or to other projects. A timely transfer of assets will eventually result in a timely closure of grant and delivery of donor report, which indicates that UNIDO managed the resources entrusted by the donors efficiently and effectively. In accordance with IPSAS, Item 3.2.7 of the UNIDO Property Management Manual provides that an item of PPE shall be derecognized and removed from the financial statements when no future economic benefits or service potential is expected from its use or disposal. An asset is derecognized in the books of UNIDO due to: (a) transfer to beneficiary; (b) transfer to another project or to the regular budget; and (c) disposal/loss.

58. We noted that CMO/OSS/GSL could not proceed with the processing of transfer of PPE to beneficiaries when the details of the beneficiary are not readily forwarded by the PM. While for transfer to another project, processing is hampered in cases in which there are assets which are already unserviceable, and the PM of the recipient project/grant would not accept the transfer, decisions are to be awaited, hence, the assets are not derecognized. Another reason for not derecognizing the assets that are ready for disposal or not in the custody of the Organization anymore, would be in case the justifications on the PSB form would not be satisfactory for review by PSB and thus needing or awaiting further justification/documents.

59. The failure to derecognize assets that are already transferred to beneficiaries, disposed of or otherwise not the responsibility of UNIDO anymore overstated the assets recorded in the books of accounts.

60. **We recommended that UNIDO enhance processes relating to project status monitoring that would prompt the PMs to provide the information needed to derecognize assets that are no longer the accountability of the Organization such as those already transferred to the project beneficiaries, or assets that do not offer any economic benefits or service potential to the Organization anymore like those that are unserviceable or for disposal, either by preparing a separate report or incorporating the information in existing reports.**

61. **UNIDO Response:** Management agreed with the recommendation and committed to include in its annual verification exercise a procedure that will enhance reporting by including/updating the information needed for derecognizing assets. It likewise stated that it will recommend the immediate transfer of assets no longer under the control of UNIDO.

1.3.4 IPSAS Compliance

62. UNIDO disclosed that its financial statements 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 Accounting Standards (IPSAS). The UNIDO IPSAS Policy Manual does not, however, explicitly mention IPSASs 28, 29, 30, 31, 37 and 39. However, where relevant the provisions of the new and/or reissued Standards have been applied in the preparation of the financial statements. The IPSASs that are relevant and effective for implementation as of December 2019, but not yet described in UNIDO IPSAS Policy Manual are listed as follows:

a. IPSAS 28 – Financial Instruments: Presentation

b. IPSAS 29 – Financial Instruments: Recognition and Measurement

c. IPSAS 30 – Financial Instruments: Disclosures

d. IPSAS 31 – Intangible Assets

e. IPSAS 37 – Joint Arrangements

f. IPSAS 39 – Employee Benefits

63. **We recommended that UNIDO update the 2014 Edition of the UNIDO Policy Manual for IPSAS in 2020 to incorporate all IPSASs that have become effective and applicable to UNIDO as of December 2019.**

64. **UNIDO Response:** Management agreed with the recommendation to update the IPSAS Policy Manual. However, management noted that applicable provisions and requirement of all relevant IPSAS Standards have been complied with in the financial statements.

1.4 Enterprise risk management (ERM)

65. We noted that risk management had been a part of the conversation within UNIDO since 2013 when its ERM Policy was first established. Following our initial review of ERM implementation by the Organization in 2018, we determined that more robust undertakings were delivered by the Organization that included the initial enterprise-wide risk mapping exercise, the overview of its risk profile and the corporate risk register, among others. A dedicated workplan was also established and the HLCM Task Force on Risk Management came into being in 2019. However, we observed that UNIDO's revised ERM policy, Risk Universe and Profile are still in draft form which impress that these are not yet concrete and stable.

66. In its current substance, the draft ERM policy does not also clearly highlight the risk management process as intended based on the methodology prepared in 2018 where risk mapping and scoring are more pronounced and the time-horizon perspective for risk prioritization is included. We further highlight that the Organization needs to prepare a more comprehensive risk taxonomy to effectively guide the performance of risk identification and the overall risk assessment

process. We also determined that the implementation of ERM is not yet supported by an explicit change management plan although we were informed that UNIDO will consider ways to ensure that ERM is circulated and properly embedded at all organizational levels through training and workshops among others.

67. With reference to the draft UNIDO Enterprise Risk Management Policy and the risk universe, we determined varying the risk taxonomies, thus clarity of risk categories is needed to avoid differing conjectures. Further, in Part D – Risk Assessment of the Risk Management Policy, the process described therein is couched in general terms and there is a need to prepare specific guidance and procedures for this since it also has close dependency with the defined risk universe and risk classification. The use of risk indicators during risk identification must be considered, as well. We also determined that to implement the Policy, there is a necessity to support it with a step-by-step guidance particularly on the risk management process and UNIDO must include this in its implementation activities.

68. As regards the initial UNIDO Risk Universe, it is impressed that the identified risks under the five categories pertain to work areas except for Programme Results Delivery under Fraud and Corruption that has False Reporting as a risk. A risk as defined in the Policy pertains to an event, thus, a risk event must be made apparent for clearer guidance. If the ERM is intended to work in tandem with internal control, then risks relating to weak or absence of internal control must also be made part of the risk taxonomy. The Risk Definitions in the Risk Profile must therefore be expanded to support more effective risk identification. As to the UNIDO Risk Profile, we determined some risk definitions that need to have finer granularities in terms of risk events and indicators or factors.

69. Notwithstanding the observations we have made in the preceding, it is apparent that UNIDO has made material advancements to make risk management its primary driver in its decisions. It must be noted that we made observations in 2018 on the state of ERM adoption in UNIDO and saw the need for the Organization to have a clearer ERM implementation trajectory and accountability through formal policies, workplans and ERM governance, acknowledging advancements have been made across all these elements. However, building a risk culture and nurturing risk orientation in processes and management decisions needs a strong foundation. Having a strong foundation means that the ERM policies and guidance are firmly established and the latency of the existing management risk management practices is reduced.

70. **We recommended that UNIDO concretize and formalize its ERM corporate policies supported with clear risk taxonomy and risk management procedures before the end of 2020 to warrant an unimpeded implementation of its ERM initiative.**

71. **UNIDO Response:** Management agreed with the recommendation. Refinements such as time horizons, expansion of the methodology and accountability elements have been incorporated in the evolving draft of the ERM policy.

1.5 Fraud risk management

72. The essence and objective of a fraud risk management exercise is for organizations to be aware of its fraud vulnerabilities and how to be in control of situations. In UNIDO, we ascertained that it is still to put in place a formal and concrete Fraud Risk Management Programme as part of the institutionalization of its enterprise risk management (ERM) initiative. However, we are aware that the delivery of the existing fraud risk management activities within the Organization is anchored on its commitment to free its operations from fraud and other corrupt practices. The UNIDO Policy on Fraud Awareness and Prevention, first introduced in 2005 and updated in February 2013, highlights that the Organization has a zero-tolerance policy for fraud in all its manifestations. We determined that there had been a decreasing number of reported fraud cases from 2015 to 2018, and there were only two cases reported 2018. In 2019, there were four fraud cases lodged with EIO. These statistics can have different meanings to different stakeholders. These can also be construed as mere anomalies but whatever impression it may produce, the fact remains that there are apparent fraud risk exposures within the Organization that current mechanisms must be strengthened and enhanced.

1.5.1 Fraud risk governance

73. A sound fraud risk governance stems from effective coordination and robust policies and structures within an organization. In the whole scheme of things, managing fraud risks greatly depends on how governance is designed and delivered within an organization. Essentially, the fraud governance process is the foundation of fraud risk management. The lack of fraud governance seriously undermines any fraud risk management efforts. Within the ambit of governance is risk management and for an organization to have a coordinated approach to managing its fraud vulnerabilities, it must have the right appetite to offer as a strong foundation the right governance structure and processes that are based on strong policies.

Nevertheless, establishing an effective fraud governance within any entity requires that an enabling environment is established, and best practices suggest that part of governance within an organization is a fraud risk management programme delivered through a formal written policy that declares top management's attitude towards fraud.

1.5.1.1 Fraud risk management policy

74. Along the lines of good corporate governance, we noted that UNIDO has adopted its own Internal Control Framework (ICF) based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model, which sets out five interrelated components of internal control. Concomitantly, the Director-General issued the UNIDO Enterprise Risk Management Strategy in 2013 to complement the ICF. It is also indicated in the same ICF that accountability is one of the UNIDO Management Principles. In the Organization's 2020 IRPF, it is made clear that organizational effectiveness is one of the goals. Understandably, part of the goal of administrative efficiency is the effective and efficient management of organizational fraud vulnerabilities. We determined that the Organization has put up a system of fraud and fraud-related policies, foremost of which is the *Policy on Fraud Awareness and Prevention* (2013) that contains fraud and potential risk areas, control mechanisms, responsibilities of UNIDO management and staff, reporting presumptive fraud, evaluation and investigation of fraud allegations and disciplinary action. Reinforcing the said policy are several fraud governance and deterrence policies such as the Staff Regulations and Rules, Code of Ethical conduct, Policy for Financial Disclosure and Declaration of Interests, and the Procurement Manual, among others.

75. With the available institutional policies and procedures that UNIDO possesses, the delivery of fraud risk management within the Organization can already be guaranteed to a certain extent. However, with the adoption of ERM, the Organization must also take stock of a critical subset of risk management which is fraud risk management for it to establish a more robust, visible and rigorous fraud governance process to allow for the better design and implementation of its preventive and detective control processes. A more thorough risk assessment methodology and swifter response to fraud allegations will also be possible if points of focus for every fraud risk management activity are clearly defined and a complete picture of fraud risk management is presented. On this score, we highlight the COSO's Fraud Risk Management Framework (FRM) where points of focus are clearly defined including the establishment of a comprehensive fraud risk management policy and the fraud risk governance roles and responsibilities.

76. As it currently stands, UNIDO does not have an explicit, stand-alone Fraud Risk Management Policy although some of its elements are found in its ICF and to a greater degree, in the draft ERM policy and process. We also observed that some awareness activities were undertaken by EIO in particular fraud awareness week events that were jointly undertaken with the Ethics Officer, among others. However, while there are several governance policies that approximate the functions elaborated in the COSO FRM points of focus such as its ICF, the Organization needs to further commit to establish a more comprehensive approach to managing its fraud risks. The Organization must anchor its fraud risk management activities, including its current related policies, on a well-established fraud risk governance policy to concretely demonstrate that commitment. The policies currently in place must be considered as the Organization proceeds to strengthen further its fraud risk management governance processes. With a concrete policy to manage its fraud vulnerabilities, UNIDO can then establish a more rigorous fraud governance process, a transparent and sound anti-fraud culture, a thorough fraud risk assessment, more effective preventive and detective fraud control activities and swifter action in response to fraud allegations. Hence, in pursuance of its zero tolerance for fraud, UNIDO needs to develop a comprehensive fraud risk management policy that harmonizes all existing policies and procedures that will eventually facilitate communication of all fraud-related policies and guidance across the Organization.

77. **We recommended that UNIDO craft a best practice fraud risk management policy within 2020 that will encapsulate all related policies including its Policy on Fraud Awareness and Prevention for a more focused and comprehensive management of its fraud vulnerabilities.**

78. **UNIDO Response:** Management agreed with the recommendation.

1.5.2 Fraud risk assessment

79. As defined in ISO 31000 (2018), risk assessment is a process of identifying, analysing and evaluating risks. Risk assessment, according to the same Standard, should use the best available information, supplemented by further inquiry as necessary. Although a fraud risk assessment is usually included as part of the overall risk assessment exercise of any organization, this may not guarantee a thorough contextualization and assessment of fraud vulnerabilities of an organization as the focus varies. On the other hand, the COSO ERM framework emphasized that risks do not exist in isolation and that

risk interactions/dependencies must be managed, and, in this sense, organizations must have an integrated or holistic view of its business risks. However, risk assessment is not a siloed activity within a risk management process. In fact, risk assessment highly depends upon the scope, context and criteria set that are defined as precursors of the risk management activity.

80. Based on the initial/draft UNIDO Risk Universe, we noted that there are identified risks under the six categories, namely: strategic planning and culture; programme development and technical cooperation; financial management, accounting and reporting; human resources; legal; and programme results delivery. However, in terms of the identified fraud risks, only one was indicated in the Risk Universe, that which pertains to programme results delivery and labelled as *False Reporting* risk. Nevertheless, looking at the Organization's Policy on Fraud Awareness and Prevention, there are other identified fraud schemes that the Organization had recognized such as misappropriation or misuse of funds and assets; procurement, contractual or disbursement fraud; manipulation, falsification or alteration of records or documents; and, data alteration, data destruction, sale of proprietary data, malevolently attacking IT software and systems, among others. Using a taxonomy-based fraud risk management programme requires that an effective common language for articulating fraud risks is clearly defined. To this effect, Fraud and Corruption risk have been considered by the UNIDO Risk Management and Business Continuity focal point in developing the UNIDO taxonomy-based risk universe (profile). Customizing the fraud risk management scope, context and criteria are all emphasized in both the ISO 3100 and COSO ERM standards. Comprehensive and inclusive fraud risk taxonomy will allow for a more effective fraud risk assessment.

81. On the preceding, UNIDO informed us that *fraud risk was not prominently reported in the risk identification survey responses they received* and that it is *continuing to expand and refine it at this time before it is considered for policy adoption.* We also noted that UNIDO has been compiling and developing the overall risk universe of the Organization. In doing so, the Organization must be aware that fraud risk is an important topic to consider, among other very important risk topics. As this is a work in progress, UNIDO apprised us that it is *determined to capture all elements of risk which are important to UNIDO, including fraud risk, and reflect (and manage) them accordingly*. While we recognize that embedding risk management into the operational processes and decisions of an organization can take some time before results are achieved, it is vital that the foundation for that build-up is strong and stable. The use of a risk universe, as a foundational criterion in assessing risk, means that a consistent risk management delivery is dependent, to a large degree, on key risk terminologies and a common language on how the organization talks about its risks. Another aspect that needs to be taken care of is the granularity of the risk taxonomy to distinguish risks with unique attributes because even fraud risks can come in different schemes. Thus, for UNIDO to have a common fraud risk language that facilitates risk assessment, communication and reporting, its fraud risk taxonomy in the draft Risk Universe must be further enhanced as the ERM implementation moves further forward.

82. **We recommended that UNIDO enhance its draft risk universe by expanding the fraud risk taxonomy and using the fraud schemes enumerated in its *Policy on Fraud Awareness and Prevention* to provide a more complete risk assessment criterion and a common fraud risk language thereby facilitating fraud risk communication and reporting.**

83. **UNIDO Response:** Management agreed with the recommendation.

1.5.3 Fraud control activities

84. A fraud control activity is an action established through policies and procedures that help ensure that management's directives to mitigate fraud risks are carried out. Equally important in a fraud risk management programme is the COSO principle stating that *the organization selects, develops, and deploys preventive and detective fraud control activities to mitigate the risk of fraud events occurring or not being detected in a timely manner*. An integral part of this principle is the eight points of focus that include the promotion of fraud deterrence through preventive and detective control activities, the integration of these controls with fraud risk assessment; the consideration of organization-specific actions and relevant business processes; and the deployment of control activities through organizational policies, among others. The relevance of these COSO points of focus mainly rests with the need to design fraud control in a way that it mitigates the assessed fraud risks, delivered across the enterprise, supported with tools and enabled through an organizational policy. As part of a control system, fraud controls must be so designed to prevent or deter fraud, and to detect the occurrence of the same. A control activity that prevents and/or deters rather than detects fraud is more desirable.

1.5.3.1 Policy on Financial Disclosure and Declaration of Interests

85. We noted that the Organization's policy on Financial Disclosure and Declaration of Interest is laid down in UNIDO/DGB/(M).118 dated 4 May 2010 with an objective to *ensure that, in the best interest of the Organization, actual, perceived or potential conflicts of interest arising from staff members' or employees' official position and duties on behalf of UNIDO, on the one hand, and their personal financial or other related interests on the other, can be timely identified, reviewed, managed and resolved*. In UNIDO, we also noted that conflict of interest arises when its staff benefit improperly – directly or indirectly – or allow a third party to benefit improperly, from their association in the management or holding of a financial or other private interest in an entity that engages in business or transactions with UNIDO. We were told that a new *Financial Disclosure and Declaration of Interests Policy* (FD and DI) is currently in draft form and already reviewed by the Legal Office. Nevertheless, we determined that from the existing policy, certain policy requirements must be addressed. The Policy has to be clear in the (a) deadline of submission of the disclosure statements by the new employees; (b) inclusion of employees required to file the disclosure statements because of the nature of their works such as those performing oversight functions; (c) individuals serving UNIDO on reimbursable or non-reimbursable loan agreements from their employers; (d) inclusion of the relevant Head of Office to identify the employees who shall file FD and DI as this is only left to the Director General's (DG) discretion in the current policy; (e) policy and procedure for submission of FD/DI statements, as well as the review and resolution of conflicts of interest of employees assigned in EAO; and (f) verification process of the DI statement from external sources on a random basis.

86. We have further observed that the existing policy does not include a process for verification of the information contained in the Declaration of Interest. On this note, we were informed that UNIDO is looking forward to a collective approach for the United Nations systems as the activity is expensive and the Organization cannot afford external commercial evaluation. However, looking at cost versus reward, it is worthy of noting that EAO detected 19 cases of actual/potential/perceived conflicts of interests in 2019 although all of which were already resolved. On the side of the investigative activities conducted by IOS from CYs 2014 to 2019 on fraud allegations, we noted that conflict of interest was one of the observed fraud indicators. The importance of Financial Disclosures and Declaration of Interest statements is thus made evident in the preceding. It is therefore of paramount importance that UNIDO's personnel practice the undertaking to quell partiality and personal motives or interest in relation to their employment in the Organization. To protect the interest of UNIDO, its policy on the preparation of Financial Disclosures and Declaration of Interest statements must ably support organizational objectives. To uphold this, the Organization must have robust policies and processes so that the exercise can serve UNIDO's best interest always.

87. **We recommended that UNIDO enhance the substance of its Financial Disclosure and Declaration of Interest policy by ensuring that it covers submission timelines including its process; specific employees required to file the statements; related responsibilities of heads of offices; and, the verification process on the Declaration of Interest Statement, to strengthen the support of the exercise of fraud prevention and the preservation of the interests of the Organization.**

88. **UNIDO Response:** Management agreed with the recommendation.

1.5.4 Fraud response

89. Producing the desired degree of fraud risk response is primarily driven by the way the risk response is structured and delivered. In relation to this, COSO crafted its 4th Fraud Risk Management Principle which underlines that *the organization establishes a communication process to obtain information about potential fraud and deploys a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.* Finer granularities on the principle are made in the defined points of focus include the need of *organizations to establish, formally document, and maintain a process for the receipt, evaluation, and treatment of communications of potential fraud*, among others. Responding to fraud, however, necessitates clarity of activities that must be contained in a formal and stable set of corporate policies. The roles and responsibilities attached to the exercise must also be clearly established, from the staff up to the top management and the external oversight bodies. A response to suspected or detected fraud can also vary depending upon the nature of an organization's business but should contain, at the minimum, clear reporting mechanisms, among others.

1.5.4.1 Fraud reporting mechanisms

90. Fraud can come to an organization's attention in many ways, such as whistle-blowing, tips from individuals, internal and external audits, and by accident. As regards UNIDO's mechanisms, reporting of any wrongdoing to EIO, one can contact

the office via telephone hotline, through email, and/or an online form designed for purpose. Under UNIDO/DGB/(M).116 *Protection against retaliation for reporting misconduct or cooperating with audits or investigations* of 2010, misconduct, which includes fraudulent and related acts, should be reported to the Director, Human Resource Management (HRM) Branch, EIO or Ethics Office. In turn, the HRM and Ethics Office will, after preliminary assessment, report the incident to EIO for investigation. Should a whistle-blower report misconduct to a supervisor, chief, director or managing director of a unit, branch or division, the recipient may relay the information to the aforesaid relevant offices, that will relay the same to EIO. These officials/offices are duty-bound to protect the confidentiality of the whistle-blower's identity and the complaint in all communications through these channels, including when referring it to EIO.

91. However, except for the provisions in UNIDO/DGB/(M).116 on reporting misconduct, we have not observed a clear procedure or protocol that ensures that the reported misconduct reaches EIO, the investigative arm of the Organization. Specifically, we could not see a clear communication pathway for misconducts as these are reported to supervisors, chiefs, directors or managing directors of a unit, branch or division that end with EIO receiving the information. We were told that there are different intake mechanisms for different types of wrongdoings but there is no unified protocol for referrals of all types of wrongdoings to EIO. This situation reflects the fact that the ownership for policies on wrongdoings varies and depends on the type of wrongdoing. Nevertheless, we gathered that the HRM, Ethics Office and the aforesaid officials immediately refer the fraud cases to EIO, as practiced. With the current misconduct reporting protocol, there is a low level of assurance that all cases of misconduct reported through the different channels, reach EIO within established time frames.

92. The institution of an effective fraud complaint and reporting mechanism influences the delivery of the other fraud response phases. The presence of a reporting mechanism can also become fraud deterrence. Over the years, whistle blowers have become the main contributors in the uptake of fraud allegations. To a large extent, investigation activities within an organization are highly dependent upon the effectiveness of the embedded fraud reporting mechanisms. The importance of an effective reporting mechanism was also highlighted by the Joint Inspection Unit (JIU) Inspectors in the same report stated earlier. As observed, the various fraud reporting lines currently in place within UNIDO are fragmented owing to unclear avenues on how the reported fraud allegation or incident from other organizational levels will reach EIO's desk, being the custodian of the evaluation and investigation of corporate fraud complaints and allegations. Given the serious implications associated with fraud, the definition of clear reporting lines and institution of information-sharing mechanisms must not be overlooked. The accurate, consistent and timely investigation of fraud complaints and allegations greatly depend upon the effective uptake of these fraud complaints.

93. **We recommended that UNIDO enhance the uptake process of fraud complaints and allegations at once, by streamlining the various fraud reporting channels and mechanisms to ensure the completeness of EIO's fraud complaints and allegations register and for more effective fraud response.**

94. **UNIDO Response:** Management agreed with the recommendation.

1.6 Procurement

1.6.1 Contract management

95. Obligations and rights arise from contracts where goods are delivered, and services are rendered. To provide safeguards for the execution of these contracts, a continuous management of the perfected contract must be installed. This is to manage the relationship between the contracting parties to ensure that they both get the result they desire.

1.6.1.1 Guidelines and clearly defined roles and responsibilities in the implementation of contract management

96. The 2018 Procurement Manual of UNIDO underscores that POs/contracts are managed by the Procurement Official/Authorized Official in cooperation with the PM/AH, where applicable. The management of a PO/contract shall, as a minimum, include proactive monitoring of the contractor's performance to ensure compliance with the terms and conditions of the PO/contract. This pronouncement in the Manual includes the responsibility of the PM/AH for the receipt, inspection and acceptance of the procured goods/services/works. In case of rejection, the PM/AH, in consultation with the Procurement Official/Authorized Official where relevant, shall decide on the most appropriate action.

97. Against this backdrop we noted that the UNIDO Procurement Manual lodges contract management within the authority of PMs/AHs and Procurement Officials. Over and above their responsibilities in the approval and processing of requisitions and POs, they are expected to handle the post-award relationship between UNIDO and the suppliers. These responsibilities are not supported with clearly defined roles including specific jurisdiction on post-award management.

Although the Manual states that there must be a proactive monitoring of the contractor's performance to ensure compliance with the terms and conditions of the PO/contract but the extent on how and what they are supposed to perform are not elucidated. It only mentions their responsibility for arranging the receipt and inspection of procured goods and services and for their acceptance but there was none on how to be involved proactively during the carrying out of the PO/contracts.

98. With the absence of clearly defined roles and responsibilities, and with the deficiency in the manual regarding contract management, it cannot be expected that all the essential components of contract-management procedures such as remedies, dispute resolution, contract performance, and keeping of procurement files will be delivered properly as expected.

99. The CMO/OSS/PRO acknowledged that although SAP has a procurement module, the contract management tool/functionality is not yet included due to budget constraints. However, it is currently exploring a contract management tool through the Open Text platform which aims at supporting the existing ERP-SRM system functionality that will be considered a model/blueprint to be adopted by the Organization. However, the absence of guidance or inclusion in the manual on contract management which will be the foundation or basis of automation attaches a great amount of risk. If the objective and interventions are not properly formulated or formalized in a concrete document, there is a probability that certain gaps will be overlooked, specific roles of process owners will not be properly defined and change resistance can easily set in.

100. Moreover, we noted that one of the main reasons why UNIDO continues to have limited oversight on ongoing contracts is the fact that the organization went through a transition from paper-based transactions to mostly ERP-SRM based procurement procedures, but a fully-embedded contract management tool was not part of the system. The changing business and operating environments of the Organization due to reduction in staff and an ERP-SRM transition presents a challenging situation which urgently needs to be addressed. Appropriate guidelines, policies and procedures on contract management must first be established to have a precise contract management implementation with a uniform and institutional approach.

101. Management agreed with the observation and added that to foster its efforts, additional training on the topic of contract management should be delivered to all those involved in the procurement process.

102. **We recommended that UNIDO improve its contract management by crafting specific policies and detailed guidelines that will reinforce the relative provisions in the Procurement Manual and incorporate contract performance monitoring, contract change management and remedies as well as the specific roles and responsibilities of contract managers.**

103. **UNIDO Response:** Management agreed with the recommendation and additional training on the topic of contract management will be delivered to all those involved in the procurement process.

1.6.1.2 Delivery date as reckoning period for contract management

104. One of the main objectives of contract management is to ensure that the goods subject of the PO/contract are delivered on time. The Procurement manual provides that "purchase orders/contracts for the supply and delivery of goods/equipment shall normally contain delivery terms". These delivery terms may be stated as a specific date or dependent on the day the PO/contract was countersigned by the supplier. It is also underscored that the critical activity of goods/services receipt process is delivery, which is the acceptance or physical receipt of products/services following procurement. Normally on projects, the delivery dates for goods and services influence the scheduling of works/activities. The delivery dates for equipment and materials and the work completion dates for contracted works are placed on the project schedule to ensure the completion of the project and achieve its objectives.

105. To establish whether these delivery dates could be monitored in SAP and if the system presents the reliable delivery dates of the goods and services procured, we extracted all the POs created from January to October 2019. From these POs, we noticed that the details captured by the system provide delivery dates as well as the confirmation approval of the delivery coming from the PMs/AHs of the goods and services procured. However, we also noticed instances where the confirmation approvals came prior to the date of delivery, the PO date was the same as the delivery date, and the delivery date came immediately a day after the PO date, among others. This means that the delivery date maintained in the system is not the actual date of delivery or not what it purports to be. This raises questions on the reliability of the dates of delivery captured in the SAP.

106. We also observed that as early as the approval of the Shopping cart, the delivery date is already entered in the SAP, although as mentioned by the CMO/OSS/PRO, this date is only a field used for identifying the budgeting year and not for estimating when the goods/services should be delivered.

107. Moreover, one of the contributory factors for the unreliable date of delivery is the way the system captures the delivery date. When deliveries are confirmed in the SAP by the PM/AH, the date of creating the confirmation automatically becomes the date of delivery, which is not necessarily the date when the goods/services were delivered.

108. Further, we also noticed that the Certificate of acceptance does not present clearly if the goods were delivered within the terms provided in the PO/contract. This deficiency in the Certificate of acceptance also adds another layer of reliability concern on the actual delivery date reflected in the SAP.

109. Viewed from the foregoing premises, i.e., lack of distinct character of the delivery date, uncertainty on the actual receipt of goods/services procured, and incomplete details of Certificate of acceptance, the PMs/AHs/Procurement Officials lack essential information necessary for decision-making purposes, such as whether goods/services are delivered on time and whether the Organization is getting the full delivery that it requires and expects which also affects the timelines of project implementation.

110. Management acknowledge the observation and commented that the future contract management system being developed through the Open Text platform will provide for delivery dates based on actual contract delivery timelines.

111. **We recommended UNIDO ensure that the actual date of delivery of goods or services, which is an important period for contract management is properly established through specific policies or instructions to the PMs/AHs including the others who are involved in the e-procurement process to make certain that the:**

a. Certificate of acceptance reflects the date the goods were physically delivered and accepted;

b. Confirmation in SAP is done immediately during or after the actual delivery and acceptance of the goods/services delivered and made available for use; and

c. SAP field for delivery date in the confirmation screen is updated/modified to reflect the actual delivery date as indicated in the Certificate of acceptance.

112. **UNIDO Response:** Management agreed with the recommendation.

1.6.1.3 Consolidation of procurement demands

113. For UNIDO, one of the objectives in establishing contractual relationship by way of LTA is to ensure quick and uninterrupted supply. It also reduces workload in the repetitive bidding process of procuring goods/services/works and allows UNIDO to fully leverage its market position by taking advantage of its size, procurement volume and geographical presence to obtain best value for money. However, the advantages of LTAs are not guaranteed by its establishment, it should also be discerned as to why the LTA was established in the first place, the choice of which type of LTA was adopted and whether the LTA established answers the need identified by the Organization.

114. The establishment of LTAs is a case-to-case basis for each identified goods and services to be procured following a careful procurement planning and analysis which will ultimately result in a procurement strategy. The CMO/OSS/PRO explained that the organization’s procurement strategy is achieved through pro-active teamwork with the substantive divisions. Thus, despite non-aggregation of procurement needs, the goods and services regularly needed are well known to CMO/OSS/PRO and the PMs. This allows CMO/OSS/PRO to gradually introduce LTAs in various areas of the Organization’s operations.

115. However, as of October 2019, we observed that there were 69 active LTAs entered by UNIDO. From these LTAs, in terms of money value, call-offs from LTAs were recorded at EUR 1,509,204.48 and EUR 4,602,730.18 for 2018 and 2019, respectively. These represent 1.14 per cent and 4.19 per cent out of the total procurement for 2018 and 2019, respectively. All the same, there could still be goods and services that may qualify for the establishment of LTAs based on their repetitive and requisite nature, such as LTA for fire detectors, upholstery supplies, IT equipment, sanitary products and supplies, among others, which can be established from consolidation of the needs/requisitions and purchases of the substantive divisions.

116. **We recommended that UNIDO enhance the process of establishing LTAs by considering the procurement demands of the Organization about the individual but nevertheless similar and repetitive requirements of the substantive divisions to actively promote the benefits of LTAs.**

117. **UNIDO Response:** Management agreed with the recommendation. CMO/OSS/PRO shall continue to actively promote the consolidation of procurement demands which will possibly lead to the establishment of LTAs and encourage the substantive divisions to take the lead in assisting with the preparation of good quality technical specifications and terms of reference.

1.6.1.4 Guidelines on the specific roles of process owners in the implementation of LTAs

118. Closer scrutiny of LTA-related provisions in the UNIDO Procurement Manual shows that it essentially dwells more on the establishment and setting up of LTA and none on the process owners. The most that can be related on this aspect is that it mentions that "the specific terms and conditions of each LTA may vary. PMs/AHs shall make themselves aware of the detailed terms and conditions prior to ordering any good, service or work from LTAs." The provision is too general and considered undersupplied with specifics which may bring confusion on the performance of their responsibility and accountability. The Organization's ability, therefore, to strategically establish and manage LTAs and to monitor and assess their outcomes could be hampered, thereby reducing the capacity to fully realize the benefits of this mode of procurement.

119. We reviewed the contract provisions of some LTAs entered into by UNIDO and noted several clauses that could be beneficial to UNIDO if properly monitored and exercised. One of which is the reduction of LTA prices on goods, under the LTA contracts on goods, where UNIDO is: (a) considered the most favoured customer, signifying that the prices charged to UNIDO shall be lower or equal to the lowest price charged by the Contractor to other major customers or the United Nations and similar organizations; (b) that in case the manufacturers of the various equipment reduce their list of prices during the contract period, such reductions will be passed on to UNIDO; and (c) UNIDO reserves the right to request for price reduction if UNIDO demonstrates to the Contractor that lower prices for goods identical to those covered by LTA can be achieved by contracting with other providers. These provisions in the LTA give UNIDO an edge.

120. We were also informed that the implementation assessment on LTAs is not institutionalized but done informally on a case-to-case basis derived from the feedback of LTA users. This informal way of raising concerns on LTAs prevents proper aggregation of the issues and undermines attaining the overall efficiency and effectiveness of each LTA.

121. **We recommended that UNIDO adopt LTA-related procurement guidelines to include specific roles and responsibilities of process owners on LTA implementation. The guidelines should also include monitoring tools, methods and data collection capabilities that will be used to determine and maximize the benefits of LTAs.**

122. **UNIDO Response:** Management agreed with the recommendation. Despite the absence of related guidelines on LTAs, CMO/OSS/PRO issued a detailed step-by-step explanation on how to use the respective LTA, how to create the call-off in the system, communicate with the contractor and provide performance feedback through confirmation of the goods/and services in the SRM system as well as processing of the related invoices.

1.6.1.5 Monitoring guidelines for vendor performance under LTAs

123. The JIU report (JIU/REP/2013/1) emphasized monitoring as an activity that should form part of LTA management. It highlighted that monitoring of the organization's utilization of LTAs is critical in evaluating the outcomes of such LTAs. Furthermore, it underlines that few organizations required ongoing monitoring of market conditions and prices throughout the lifetime of the LTA.

124. We noted in the UNIDO Procurement Manual that there is no mention of activities dealing with monitoring of LTA performance. Considering the 69 active LTAs currently being managed by UNIDO, and with the absence of a guideline on monitoring supplier's performance under LTA, there exists a room for improving the Organization's realization of the benefits of LTAs.

125. According to CMO/OSS/PRO, although it acknowledges the absence of formal guidelines on how the evaluation of each LTA will be performed, it is hopeful that such will be incorporated in the contract management tool it is working on. In the meantime, the usual supplier/contractor performance evaluation is performed at the end of LTAs manually. Even then, CMO/OSS/PRO agrees that this current supplier contractor performance does not cover assessment of the performance of all types of LTAs.

126. In view of the foregoing, there is still a need for UNIDO to undertake regular evaluation of the effectiveness of the LTA in terms of the benefits and costs it delivers to the Organization taking into consideration the changing market conditions and volume of utilization of the LTAs. It is important that the activities applied to monitor procurement through LTAs are backed up by clear and specific guidelines and procedures to make the monitored information more meaningful.

127. **We recommended that UNIDO incorporate in the contract management document being developed clear and more concrete guidelines on monitoring vendor performance under LTAs and ensure that these are consistently applied to all vendors.**

128. **UNIDO Response:** Management agreed with the recommendation and will continue to review the performance of LTAs, regularly. The recent and future LTAs will be captured in the forthcoming automated supplier performance evaluation, which it hopes will allow the CMO/OSS/PRO an additional effective tool within its contract management framework.

1.6.2 Sustainable Procurement

129. In recent years, the Sustainable Development Goals (SDGs) have influenced the procurement patterns and requirements of different organizations, where procurement is no longer solely concentrated on the needs of the organizations but also on the relative environmental effects of procurement through the relative features of individual goods and services. The clamour on environmental concerns escalated urgent action by all governments and all the programmes and projects of the United Nations giving rise to policies leaning towards environmental protection termed as “Sustainable Procurement”.

1.6.2.1 Integration of sustainable procurement in the procurement processes

130. UNIDO’s Procurement Manual of 2018 provides that through sustainable procurement, organizations use their buying power to give a signal to the market in favour of sustainability. Correspondingly, the UNIDO procurement manual delivers guidance that should be considered in identifying sustainable procurement requirements from procurement planning to evaluation and selection of vendors/suppliers. The PM/AH and/or Procurement Official are encouraged to develop technical sustainability criteria, which may be mandatory on a pass or fail basis, or in terms of weighted scoring system where desirable criteria (i.e., not mandatory) can be assigned extra points.

131. We reviewed sample Purchase Orders (POs)/Contracts including their respective Shopping carts (requisitions) and/or RFx events pertaining to Technical cooperation projects as well as the UNIDO HQ procurement for CY 2019 to verify that requirements of sustainable procurement are embedded in the UNIDO procurement processes. We noted that the RFx events do not expressly mention reference to sustainability considerations. Moreover, from the commencement of the procurement activity or the Shopping cart creation in SAP, requirements/specifications do not always explicitly address the aspect of sustainable procurement as set by the PM/AH. While there are required parameters in the technical requirements, it cannot be clearly construed if these are for the utility factor of the goods, or attributes addressing sustainable procurement. There was also no instance from the samples gathered where an explicitly environmental requirement/specification was classified on a pass/fail criterion or was evaluated using a weighted scoring system.

132. On the commercial evaluation of offers, we noted that the residual test in selection of offers/bids is primarily hinged on the lowest cost offered, in line with the Financial Rules of the Organization. In sustainable procurement, however, emphasis is given more on the total cost of ownership rather than the acquisition cost/price. On that note, Life-Cycle-Costing (LCC) is espoused by sustainable procurement where the total cost of ownership is considered from acquisition to the relative disposal, a cradle to grave approach.

133. The General terms and conditions for the POs/contracts that we reviewed also did not include provision of unequivocally requiring or apprising the vendors/sellers about UNIDO’s paradigm towards sustainable procurement. For instance, the procurement procedures using the Direct Expenditure and Fast Track procurements have limited competition, as the vendors/suppliers are preselected from the Supplier Master Data in the Supplier Relationship Management/Material Management (SRM/MM) modules before the creation of shopping carts. Since there is no established accreditation process indicated in the procurement manual to determine who among the vendors in the Supplier Master Data in the SRM/MM conforms with sustainable procurement, it cannot also be decidedly recognized that the selection of PMs/AHs are funnelled with sustainable procurement criteria on either economic, environmental or social concerns.

134. Considering the foregoing, the procurement scenario within the Organization suggests that concerns on sustainable procurement, while embodied in the procurement manual, are not always translated into activities that should be embedded in every procurement process as applicable. While there were instances when UNIDO required possible suppliers to provide details of "green manufacturing policies in place, carbon emissions, and waste disposal", these efforts of fostering sustainable procurement were rather sporadic and fragmented. Thus, to initiate partnership, it is crucial for UNIDO to make its vendors conscious about its trajectory in adopting sustainable procurement.

135. For the most part, the procurement processes in place do not seem to sufficiently reflect the sustainable procurement policy of UNIDO, one that is better-aligned with Goal 12 target 12.7 of the SDG.

136. That being the case, the Organization must ensure that concrete policies and procedures on sustainable procurement are integrated in all its procurement activities, where applicable, ensuring that a culture of tailoring environment-friendly and socially relevant procurement activities is enshrined throughout.

137. **We recommended that UNIDO intensifies its efforts in operationalizing sustainable procurement principles by including in its regular procurement processes concrete and identifiable activities that demonstrate practices for sustainable procurement.**

138. **UNIDO Response:** Management agreed with the recommendation and will integrate sustainable procurement in its procurement processes. It contemplated on including a performance clause in the special conditions of the contract as this would be case-specific, and incorporating the evaluation of contractors in the system, i.e., automating the process to facilitate assessment of their performance. Further, CMO/OSS/PRO can have a role in creating a library of requirements incorporating sustainability considerations.

1.7 Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I

1.7.1 Project implementation

139. The objective of the project is to achieve the complete phase-out of HCFC (specifically HCFC-22 or R22 and later R290) in the manufacture of room air conditioners from 2011 to 2015. R290 is the alternative to be phased-in instead of HCFC-22. R-290 according to Management is a natural substance without any environmental impact and as such not a controlled substance under the Montreal Protocol. Section 3.2 of the Contract between the UNIDO and the MEP/FECO requires that MEP/FECO complete the work by 31 December 2016.

1.7.1.1 Project timelines

140. Based on the project workplan and overall schedule, the fifth and last tranche would have been completed in 2015, with the targeted maximum allowable total consumption level of R22 attained the following year. However, as indicated in the annual Implementation Programme/Progress Report dated 30 August 2017, the project was extended by more than two years from the planned completion date of the project.

141. Inquiry with the Montreal Protocol Division under the Directorate of Program Development and Technical Cooperation, Department of Environment (PTC/ENV/MPD) revealed that the planned extension period will further be extended in CY 2020, for all the tranches due to unreleased funds for the IOC, which beneficiaries are not keen on claiming as they are now using alternative new technologies. This means that the production lines that were introduced in the HPMP project have become idle with the possibility of not being used at all, translating to obligated but unexpended funds of approximately $14 million or about 18 per cent of the total $75 million project cost. Management however, explained that beneficiaries are not allowed to use alternative technologies to the one approved for the HPMP. The reason that IOC's are not claimed is that beneficiaries have not started using the alternative technology yet (R-290) for regular production (only smaller batches for specific projects).

142. In relation to the unreleased amounts for the different tranches, MEP/FECO is required to submit a confirmation of the performance of the beneficiaries. This requirement is an assurance that the beneficiaries did find ways to sell the alternative products and consequently claim the IOC incentive. Relying on MEP/FECO to comply with the requirement, and since it has already complied with such requirement for all tranches except the last tranche, UNIDO proceeded with the implementation of stage II of the HPMP Project despite the noted delay in the implementation of stage I. Management explained that IOC's are always coming after the production line conversion; so the overall programming of the HPMP kept IOC's to the last tranches.

143. Had the development of marketing strategies been given due attention, there would have been better chances of selling the alternative products which would expedite the release of IOC incentive, which basically is the last critical activity that caused the delay in closing/completing the project.

144. **Moving forward and considering that the project has been extended up to 2020, we recommended that UNIDO address the challenges noted in project implementation by ensuring that appropriate strategies or action plans that will encourage/commit the beneficiaries to market the newly converted alternative products are established.**

145. **UNIDO Response:** Management agreed with the recommendation.

1.7.1.2 Monitoring accomplishments

146. UNIDO is responsible for the overall implementation of the RAC Sector Plan including the conduct of necessary monitoring exercises throughout the implementation of HPMP and verification of the achievement of the targets and performance indicators. On the other hand, MEP/FECO is responsible for the overall project management and coordination for the implementation of the project.

147. We noted inadequacies in monitoring the implementation of the project which can be attributed to the leniency with which UNIDO and MEP/FECO perform their functions and these are: (a) timeline for the activities identified under the seven components was not clearly provided; (b) current status/accomplishment of each grant was not reported in the Progress report; (c) comparison of the targets versus the outputs showed that PTC/ENV/MPD did not confirm/verify the performance; and (d) only the accomplishments for 2013 were reported.

148. Monitoring is a tool, which when properly undertaken provides necessary feedback on the progress of project implementation and thus gives opportunity to identify possible constraints such as delays and non-preparation of needed reports as well as opportunities for successes such as action plans and performance indicators. Ultimately, these will guide project implementers towards informed decisions.

149. **Moving forward, we recommended that UNIDO: (a) adopt robust mechanism that will track the progress of project implementation and report on them on a timely and periodic basis to ensure immediate resolution/action on concerns/drawbacks that may arise; and (b) enhance the Annual Implementation Programme/Progress Report to provide an accurate reporting of the status of the project such that the targets based on key performance indicators are completely indicated and compared against the actual outputs/accomplishment to have a comprehensive view of the project status and an accurate decision base for the project.**

150. **UNIDO Response:** Management agreed with the recommendation.

1.7.2 Work programme and overall schedule

151. Under the contract between the UNIDO and MEP/FECO for the implementation of the HPMP Project, UNIDO is tasked to monitor the implementation of the project and assist MEP/FECO in the preparation of the annual implementation plan. MEP/FECO, on the other hand is required to prepare a workplan at the start of each of the five tranches for stage I. Forty per cent of the contract amount of the relevant tranche is agreed to be released to FECO upon submission and approval by UNIDO of the workplan.

152. The workplan, as agreed upon by UNIDO and MEP/FECO should contain all pertinent data and information permitting the efficient and effective implementation of the project. As a minimum, the workplan should be structured in a manner reflecting the allocation of incremental operating cost and incremental capital cost required in the Terms of Reference, together with the main activities and overall outputs on ODS-related phase-out targets, with a corresponding budget by activity/target level, and, for each activity/target level, the detailed performance and technical verification conditions. The workplan should also be reviewed and updated by the parties on a yearly basis.

1.7.2.1 Presentation of the ODS phase-out targets and accomplishments

153. A workplan outlines the primary objective/s of the project, which in this case is to reduce substances that deplete the ozone layer or to use the terminology of the project, ODS phase-out. One of the listed substances is HCFC.

154. Our review showed that the workplans for all the tranches did not present the accomplishments relating to ODS phase-out. Likewise, the workplans for tranches 3 to 5 did not present the targets for ODS phase-out. Tranches 1 and 2, however, set the same target at 3,200MT of HCFC-22 for 2013, which meant that there was no target for 2012 or the first

tranche. The absence of information on the targets and accomplishments on ODS phase-out makes the workplans removed from the core of the project as the project objective, i.e. ODS phase-out should be the basis for identifying the activities to be implemented throughout the project.

155. The Project Manager, in our interview explained that the targets are included in the project document and the actual achievements could easily be obtained anytime through other documents. However, our review of the project document showed that it only presented the total ODS to be phased out after the implementation of the project and not the completed as well as targeted quantity/measure per tranche as required in the workplan.

156. Likewise, the ODS phase-out target although discussed in the project document needs to be reviewed from time to time as changes could be considered depending on the results of the previous tranches. The absence of information on the ODS phase-out results/targets makes the project implementation activity-based instead of results-based as there would be no indicator to verify the status of the project towards the achievement of its primary objective.

157. **We recommended that UNIDO, in subsequent project stages require the presentation in the workplans of ODS phase-out targets for the specific tranche as well as the accomplishments of the previous tranche for the project implementers and other stakeholders to have a complete view of how the project is progressing towards its primary objective of phasing out ODS and to ensure effective monitoring.**

158. **UNIDO Response:** Management agreed with the recommendation.

1.7.2.2 Updating the overall schedule of HPMP

159. Our review showed that the Overall Schedules for the project from Tranche 1 to Tranche 5 were the same and were not updated as required. Based on the Grant Delivery Report with reporting period from 1 January 2016 to 31 December 2018, the project still incurred expenses as of 2018 for USD 12,032,495.81. These were for the 3rd to 5th tranches of the project. Likewise, the UNIDO Open Data Platform showed project expenditures until 2018. Further, while Tranche 5 supposedly covers implementation activities for 2015, the covering workplan was prepared in 2017 with activities from 2013 to 2017.

160. Seemingly, there were changes in the project's timelines, but these were not presented in the Overall Schedule. Thus, it was not clear what decisions were made regarding the changes, whether the schedule was accelerated, or the originally planned/baseline activities were modified. Updating the Overall Schedule is necessary for decision-making purposes such as to keep track of the timely delivery of activities and to articulate what areas/activities should still be focused on.

161. **We recommended that UNIDO: (a) ensure that changes to the project timelines are documented showing analysis as to the impact on the planned schedule to aid decision on whether there is a need to fast track activities or re-evaluate baselines; and (b) update the overall schedule reflecting the current/new schedule which should be communicated to all concerned particularly the project implementers as it would affect project implementation.**

162. **UNIDO Response:** Management agreed with the recommendation.

1.7.2.3 Details of the workplan

163. The detailed workplans of the specific tranches for the HPMP Project present the activities to be performed relating to the specific tranche; performance conditions, i.e., the breakdown/details of the activities; detailed plan, which is another layer of the breakdown/details of the activities; human resources assigned to the activities; and target date. Our review showed that most of the activities presented were already completed with some of them for completion within a few months from the date of the workplan. Further, the detailed plan was presented in narrative form with no indication of the timelines except that they are the activities under the specific tranche. This pattern of presenting activities already completed and detailed plans with no timelines is carried over to the other tranches.

164. We also noted that the detailed plans were not sufficiently broken down or detailed to the sub-activities. For example, the Quota management system as an activity is broken down into two performance conditions: verification of baselines and distribution of quota. Based on the discussion/narrative of the workplan, the activity also includes the construction/development of the system in the first tranche and its operation in the subsequent tranches. Because these are important parts of the entire process and to subscribe to transparency, it would have been more informative and useful to the implementers if these sub-activities were properly presented complete with the human resources to be assigned and the corresponding target dates of completion.

165. **We recommended that UNIDO require the details of the activities as well as the corresponding timelines to be presented in the workplan for succeeding project stages, particularly those that are intended to be executed during the year relevant to the specific tranche to aid implementers in managing implementation, reporting the progress of implementation, and evaluating results consistent with the project's primary objective.**

166. **UNIDO Response:** Management agreed with the recommendation.

1.7.3 Project assets

167. UNIDO implements the China Project in collaboration with MEP/FECO, which is responsible for the procurement of equipment, supplies and other property needed for the project, and the subsequent transfer of the assets to the beneficiary's subject to the approval of UNIDO.

168. We noted that USD 64,937,139 or 87 per cent of the project cost is allocated for production lines conversion which involves procurement of several pieces of highly technical equipment that will replace the beneficiaries' existing technologies to come up with environmentally friendly alternative technologies. The Progress Report dated August 2017 shows that the R290 RAC Production lines conversion, R410a Production lines conversion, and R290 compressor already amounted to a total of USD 54,432,307.

1.7.3.1 Reporting project assets

169. MEP/FECO prepares and submits a monthly Progress report and an Audited financial report to UNIDO. Our review showed that the equipment, supplies and other property procured for the project were not included in the reports. The Progress report shows the physical accomplishments or results of the activities undertaken with corresponding fund allocation while the Financial report shows the funds received and disbursed as of date and for the period. We found no report that presents the quantity, status and value of the procured assets.

170. The Project Manager disclosed that the information is not reported but it should be available anytime as MEP/FECO is required under the contract to establish and maintain a record keeping system.

171. A report on procured assets is necessary for all stakeholders to have ready information on how project funds are utilized. The report would also facilitate the monitoring of the whereabouts and status of the assets.

172. **We recommended that UNIDO establish a reporting arrangement whereby details pertaining to the assets procured for the project such as quantity, value, condition and location are regularly and periodically reported for information of UNIDO, the donor and other stakeholders.**

173. **UNIDO Response:** Management agreed with the recommendation. In general, monitoring of TC assets is already in place and will supplement the monitoring exercise with complete reporting of assets procured.

1.7.3.2 Monitoring of project assets

174. Inquiry with the General Services and Logistics Division under the Directorate of Corporate Management and Operations, Department of Operational Support Services (CMO/OSS/GSL) disclosed that it was not able to monitor and keep track of the assets procured for the project since the procurement was undertaken by FECO. The Procurement Division (CMO/OSS/PRO) likewise informed that it cannot determine if there were other equipment or supplies procured by FECO aside from the assets intended for distribution to the beneficiaries.

175. The inability of UNIDO to keep track of the assets was the result of the absence of a mechanism to monitor assets that are procured by subcontractors/partners unless these are procured through the shopping cart or the regular procurement process of UNIDO. Thus, the contractual obligation of UNIDO as the implementing agency to oversee project implementation is compromised. By continuously monitoring and managing the assets procured, UNIDO would ensure that these were utilized according to plan and can detect any deficiency during the implementation and until the disposal/transfer of the equipment upon project completion.

176. **We recommended that UNIDO develop a mechanism to monitor assets procured by subcontractors/partners and utilized for project implementation.**

177. **UNIDO Response:** Management agreed with the recommendation. Mechanisms for the handling of assets procured under sub-contract are now under discussions.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

178. We validated the implementation of External Audit Recommendations contained in prior years' audit reports We noted that of the 63 identified prior year's audit recommendations, 18 or 29 per cent were closed, 8 or 13 per cent were yet to be implemented and 37 or 59 per cent were with ongoing implementation. Annex A presents the status of implementation of the external audit recommendations.

179. We encourage UNIDO to strategize and maintain its continuing commitment in addressing the audit recommendations to enhance operational efficiency and effectiveness.

D. DISCLOSURES BY MANAGEMENT

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

(a) Responsibility for Internal Control

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

182. 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

183. 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.

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

(c) Procurement

185. 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

186. 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.

187. 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

188. 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.

(f) Ex-gratia payments

189. Note 21.1 to financial statements disclosed that UNIDO made ex gratia and special claims payments during 2019 of €11 (2018: €79).

(g) Subsequent events

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

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

E. ACKNOWLEDGMENT

192. 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.

193. 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 as External Auditor for financial years 2018–19.

Annex "A"

STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS FROM PREVIOUS YEARS

No.	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status after verification		
						Implemented	Ongoing	Not implemented
1	2018	IDB.47/3 – PBC.35/3 LFR par. 37	Considering that the ASHI funding has been a recurrent and ongoing concern, and in relation to the recommendations ushered by the UN Working Group on ASHI, UNIDO is encouraged to consider setting a commitment date or target milestones in implementing the recommendations.	The implementation of this recommendation is driven by the position taken by the UNGA. The UN WG recommendation on funding options were not accepted by the GA at its recent meetings. However, UNIDO's Informal Working Group of PBC-related matters will be taking up the issue. See IDB.47/8 – PBC.35/8.	EA notes that UNIDO's IWG of PBC has been doing its best to convince GA to fund ASHI, however, no fund has been set aside yet as of validation date.		X	
2	2018	IDB.47/3 – PBC.35/3 LFR par. 40	EA recommended that UNIDO 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.	Implemented in 2018 financial statements.	UNIDO restated their 2018 balances of the Voluntary Contributions Receivable to recognize those that were not included in the samples during the 2018 audit where UNIDO has already control. Also, based on validation conducted, all agreements signed in 2019 where UNIDO has already control were recognized as receivables.	X		
3	2018	LFR par. 40	EA recommended that UNIDO: a. Treat subsequent procurement of Low Value Asset (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.	LVA cost and accumulated depreciation are eliminated from the face of the Financial Statements.	Per validation, LVAs are still recognized initially and eventually derecognized to track them in the Asset Register. While assets which costs below €600 are automatically derecognized at month end, however, they must recognize this first as asset because of the current SAP set-up. With due diligence of CMO/OSS/GSL and CMO/FIN/APT, LVAs are derecognized in the books and PPEs are properly classified in the books.		X	
4	2018	LFR par. 50	EA recommended that UNIDO: 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	The accrual account is regularly reviewed, and material abnormal balances adjusted. The design of the Vendor Invoice Management (VIM) solution accommodate for cases for invoices that do not reconcile with the confirmations.	The result of validation revealed that small balances due to foreign currency exchange differences were not yet adjusted. Positive balances for the account accrual for goods (250101) were noted, hence presence of abnormal balances.			X

			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.	The liabilities that cannot be reasonably expected to be settled anymore were de-recognized.	We noted that accrued payables for 2014–2015 with small balances are still forwarded as at 31 December 2019.			
5	2018	LFR par. 53	EA recommended that UNIDO: 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.	The undistributed realized gains on TC portfolio revaluation was reclassified as a reserve account within equity.	Per verification, it was already reclassified to the equity account as a reserve (reflected in Notes 13 and 15.7)	X		
6	2018	LFR par. 58	We recommended that UNIDO 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. 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 Notes to Financial Statements (NFS).	Financial statements of 5 selected UN agencies, where none of them recognize services in kind in their books. In addition, the International Public Sector Accounting Standards Board (IPSASB) Tech. Director John Stanford during UNTFAS 18–20 Sep. 2019, confirmed IPSASB position to maintain current discretionary approach on disclosure for Contribution in Kind. Along with experiences on challenges to collect accurate and timely information from various FO’s, UNIDO decided to keep current presentation of the CIK as a Note disclosure.	UNIDO is trying their best to collect data from field offices and are reflected in their Notes to FS.	X		
7	2018	LFR par. 61	EA recommended that UNIDO review all monetary items which have material non-euro currency balances and include them in the year-end translation for fair presentation of the	Implemented as of 2018.	EA noted that included in the year-end exercise is the translation of material non-euro currency balances and	X		

			related accounts as well as the unrealized gains or losses in the FS.		adjustments are made to unrealized gains or losses in the FS.			
8	2018	LFR par. 65	EA recommended that UNIDO consider the formulation of structured financial guidelines to 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.	As of 15 Nov.,2019, UNIDO has issued 6 Accounting Manuals and IPSAS policy manual in OpenText.	APT had formulated six Accounting Manuals, however, there are still for opportunities for improvement particularly on closing exercises providing a detailed procedural workflow as guide to process owners to ensure complete and accurate presentation of accounts.		X	
9	2018	LFR par. 69	EA recommended that UNIDO 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 the UNIDO accounts.	Implemented	No updated Chart of Accounts provided nor uploaded in the open text.			X
10	2018	LFR par. 79	EA recommended that UNIDO craft and present to the Vienna-based Organization(s) (VBOs) a proposal detailing the interest share of each VBOs in the joint operation of Building Management Services (BMS) for coming up with a signed and binding agreement among the VBOs.	The VBOs confirmed no joint interest in BMS and as a result, change in accounting policy reclassifying BMS from joint-operation into fully controlled internal operation of UNIDO. All VBOs agreed to treat BMS, as well as all other common services as referred to in Memorandum of Understanding (MOU) of 1977, incl. Security Services, Conference Services, Printing, Medical, etc. as a "service provider" on cost reimbursement bases. Each VBO will fully consolidate its assigned common service.	VBOs had already made an agreement on how common services will be treated on the books of the VBOs.	X		
11	2018	LFR par. 83	EA recommended that UNIDO 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.	The VBOs confirmed no joint interest in BMS and as a result, change in accounting policy reclassifying BMS from joint-operation into fully controlled internal operation of UNIDO. All VBOs agreed to treat BMS, as well as all other common services as referred to in MOU of 1977, incl. Security Services, Conference Services, Printing, Medical, etc. as a "service provider" on cost reimbursement bases. Each VBO will fully consolidate its assigned common service.	EA note that the accounting treatment and presentation is in accordance with IPSAS 37, however, this is not aligned with Accounting Manual and disclosure, hence it is recommended that UNIDO align the actual accounting treatment and presentation with the Accounting Manual and disclosure.		X	
12	2018	LFR # 89	EA recommended that UNIDO develop a robust Accountability Framework to reflect all organizational components relating to	A consultant has been appointed to develop the AF for UNIDO by end May 2020.	As provided in the synthesis report, the Accountability Framework will be completed by 1st Quarter of 2020,		X	

			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.		currently the Internal Control Framework dated 6 Jun 2013 provides some principles towards accountability.			
13	2018	LFR # 93	EA recommended that UNIDO 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.	PTC/PPF has initiated the revision of the ToR of Field Offices addressing the issue of reporting lines and accountability. The revised ToR will be finalized in March 2020. Upon internal clearance by the Management of the Organization, the revised ToR of Field Offices will be promulgated as a DG Bulletin.	The revised Term of Reference (TOR) will be finalized in March 2020.		X	
14	2018	LFR 97	EA recommended that UNIDO consider in the update of ICF, the review of internal control principles adopted considering 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.	CMO/OD is carrying out the development of the UNIDO Accountability Framework and Review of the ICF. In addition, the ERM function has now a new Senior Focal Point for Risk. Management in ODG/ODG	We noted that UNIDO is currently updating its Accountability Framework and reviewing its ICF.		X	
15	2018	LFR # 101	EA recommended that UNIDO 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.	The new Focal Point for Ethics and Accountability has been appointed on February 17 2020, on a fixed term, 50 per cent contract. The function operates autonomously and reports administratively to the Managing Director of the Corporate Management and Operations.	EA met the newly appointed Focal Point for Ethics who directly reports to the Office of the Director General (ODG).	X		
16	2018	LFR # 101	EA recommended that UNIDO 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	The recommendations on anti-fraud policy is already implemented in the revised Charter of the Office of Evaluation and Internal Oversight. Status as of 05.03.2020 a., b.:The new Focal Point for Ethics and Accountability has been appointed on February 17, 2020. Ethics Officer is currently working on the Ethics Office charter and improvement of UNIDO's Ethical framework. This includes, among others the revision of the Protection Against Retaliation Policy as well as	EA commends UNIDO's initiative on revising the Protection Against Retaliation Policy as well as the Code of Ethical Conduct.		X	

			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.	the code of Ethical Conduct, including the definition of Conflicts of Interest. c. Regarding the guideline dealing with the matter that may involve the investigation of the Director General, this has been addressed in the Charter of the Office of Evaluation and Internal Oversight. Paragraph 18 of the EIO Charter states: “In the case of findings of wrongdoing against the Director General, EIO will consult the President of the Board and inform the AAC.”				
17	2018	LFR # 112	EA recommended that UNIDO improve the upkeep of its physical assets and inventory through the improvement of its 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 its assets’ information thereby improving asset information integrity and accountability.	The recommendation has been implemented in the 2018 and 2019 verification exercises.	Annual inventory was conducted and reports were submitted by field offices and Headquarters. Inventory for BMS PPEs were conducted in March 2020. Reconciliation was conducted by CMO/FIN/APT and noted deficiencies were immaterial.	X		
18	2018	LFR # 116	EA recommended that UNIDO enhance the quality of controlling of 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.	The draft revised UNIDO Property Management Manual (dated 15 January 2020) is with Finance for clearance.	Revised UNIDO Property Management Manual was not yet released as of validation date. We encourage UNIDO to fast-track its release so that procedures and forms could be implemented and utilized to enhance accountability.	X		
19	2018	LFR No. 120	EA recommended that UNIDO 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.	A system supported solution is currently being worked on.	EA notes that the system is currently being worked on.		X	
20	2018	LFR 124	EA recommended that UNIDO 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.	The matter is being reviewed and will be reviewed further in the context of the 2020 workplan.	EA notes that no vendor background checking being done yet.			X

21	2018	128	EA recommended that UNIDO 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 workplans; and providing concrete and appropriate monitoring and control mechanism over the delivery of its ERM work initiatives including critical r.	With the appointment of a designated focal point for ERM the Function is set for a sustainable trajectory with defined workplan, implementation strategy and plans. The RFP has the objective to advance maturity of ERM. In line with this, the RFP has presented, and the Risk Management Committee (RMC) has adopted a 2020 workplan building upon developments of 2019 workplan e.g. developing a governance structure that is in line with the current Organizational structures as well as to validate the risk profile (universe) of UNIDO. A risk management maturity self-assessment was performed to identify the state of maturity of UNIDO ERM (“Developing”) and to prioritize key areas for ERM advancement towards the “Established” level. A full-time Risk Management Focal Point has been appointed to advance maturity of ERM, and in executing the function in line with the respective TOR, taking into consideration the recommendations (AAC, EA, JIU) on the subject, including fraud risk assessment.	EA noted that a full-time Risk Management Focal Point has been appointed, ERM documentation is still being developed.		X	
22	2018	132	EA recommended that UNIDO update and clarify its policy framework on risk management by clearly defining the specific roles and responsibilities of the RMC and Risk Management Focal Person (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.	Risk Management Focal point is updating the Policy to reflect governance and risk management process in the current Organizational structure. This includes defining the process for embedding risk management in UNIDO – a Zero Draft has been developed and will undergo inclusive validation by the RMC and related stakeholders in the context of the 2020 workplan. Furthermore, it was agreed by the RMC that the Risk Liaison Officer function would not stand alone, but instead be absorbed in the responsibilities of Directors (D1) (or their designees) of respective Departments, which will support the Risk Focal Point in identifying, logging, monitoring and reporting on risks. Moreover, Risk Focal Point is in collaboration with the IRPF task force to identify synergies in embedding risk management in the programme/project/initiative planning cycle.	The new Risk Management Focal point is currently updating he Policy to reflect the governance and risk management process of UNIDO.		X	
23	2018	139	EA recommended that UNIDO: (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	The updated IRPF was approved in November 2019 and shared with Member States in GC.18/CRP.4	EA notes the initiatives being undertaken by UNIDO, AI/2020/1 (IRPF Guide) was released as an internal administrative instruction to	X		

			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.	Subsequently, AI/2020/1 (IRPF Guide) was released as an internal administrative instruction to help mainstream the implementation for the said results framework. With the update IRPF, the alignment of the organizational ToC (as per MTPF 2018–2021) and the IRPF is complete. Following Gc.18/Dec.14, the offices of ODG/SPQ and CMO/FIN have started a consultative process leading to a results-based budget, hinged around the updated IRPF. With the next MTPF cycle (2022–2025) the alignment of MTPF, IRPF, P&B and associated departmental workplans will be complete.	help mainstream the implementation of the results framework.			
24	2018	147	EA recommended that UNIDO 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. We also recommended that UNIDO craft results statements in its P&B in a change language to reflect Specific, Measurable, Attainable, Realistic, Timebound (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.	The current Major Programme C presents conceptual difficulties, in that it identifies “impact dimensions” (economic, social, environmental) as “programmes”. This obviously creates confusion as per what SMART results the organization can commit to and report on in the context of the P&B. The next P&B will be designed in the way that moves away from the current structure, which confuses programmes with impact dimensions, and will spell out programmatic (output) areas and matrix them against programmatic and managerial results. Current discussions and drafts, which are subject to senior management approval, reflect this thinking. It is envisaged that part of the exercise will be the definition of indicators, baselines and targets.	EA notes that since PB 2020–2021 is linked with MTPF 2028–2021 we acknowledge the conceptual difficulties on impact in the presentation of the current Major Programme C. With the initiatives undertaken to release AI/2020/1 (IRPF Guide) as an internal administrative instruction to help mainstream the implementation of the results framework we believe that UNIDO could establish a clear linkage of the P&B results with the MTPF and IRPF in the next budgeting.		X	
25	2018	151	EA recommended that UNIDO:(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	The work on the next P&B includes the strengthening of the ties with the departmental workplans. Pending approval by senior management, the next P&B will be an integrated one, including regular budget and forecasted voluntary contributions. Departments will be mapped against programmes and expected results will match this mapping to ensure alignment. The link with associated risks will be established within the constraints of a totally new P&B approach and the guidance from senior management.	EA acknowledged the efforts undertaken by UNIDO, as stated in the 2020-03-09 Internal Audit Synthesis Engagement, the Organization is in the process of establishing mechanisms to systematically track and report on programmatic performance/results of its development operations. Currently, UNIDO’s performance is mainly reported in terms of total expenditure incurred in the implementation of technical cooperation projects and programme, referred to as “volumes of TC implementation”.		X	

			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.					
26	2018	155	EA recommended that UNIDO 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.	Cognizant of the issue at hand, the team working on the new IRPF has made sure to establish the appropriate levels of results against the actor-based, behavioural results hierarchy used. The issue of baselines and targets is well noted and is compounded by the lack of habit within the Organizational culture of measuring results and fully apply results-based management (RBM) approaches. The necessary cultural change requires caution in the expectations for a sudden complete implementation and upgrade. The updated IRPF has chosen indicators that are close to the actual programmatic results of the Organization to facilitate the uptake.	EA commends UNIDO, as stated in the 2020-03-09 Internal Audit Synthesis Engagement, UNIDO uses the logical framework approach for conceptualizing and designing programmes and projects, and to define output, outcome and impact indicators for projects and programmes. These outputs, outcome, and impact are currently being further refined to be specific, measurable, attainable, realistic, timebound (SMART), through the IRPF process.	X		
27	2018	163	EA recommended that UNIDO enhance its workplans and work planning process by aligning it with the results in the P&B and the elements of RBM.	The working group preparing the next P&B will have on its table a proposal made by SPQ and Department of Finance (FIN) that provides for the alignment of workplans to the results-based P&B. It is a necessary link if the organization commits to certain results applied to its programmes. All of this is subject to senior-management approval.	EA notes the initiative undertaken with the proposal made by SPQ and FIN for the working group working on the next P&B to use to align workplans to the results-based P&B which is still subject to senior-management approval.		X	
28	2018	166	EA recommended that UNIDO enhance its workplan 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.	The proposal on the next P&B, as it is being prepared in Q1 2020 addresses the problem by identifying the need for a consistent (planning) monitoring and reporting of achievements made with workplans. The culture change is extremely big, so a gradual approach may be required. There are also plans to introduce a whole-new monitoring policy altogether, subject to the approval of senior management.	EA notes that since the culture change is quite big, we commend UNIDO’s initiative for gradual implementation.		X	
29	2018	173	EA recommended that UNIDO 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	Acknowledging the issue highlighted in this item, the new IRPF has introduced results hierarchies and indicators to be introduced at all levels (workplans, projects, programmes, country and corporate), to facilitate the harmonization and alignment of planning, monitoring and reporting.	EA acknowledges the initial being undertaken by UNIDO, with the AR 2019 as mentioned is the first one in which the new IRPF was used. Also, AI/2020/1 (IRPF Guide) provides support to the implementation of the framework, and awareness		X	

			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.	The AR 2019 was the first one in which the new IRPF was used, and the IRPF Annex introduces for the first time a result reporting that truly speaks to UNIDO’s MTPF. Data are incomplete, and templates and systems need to be established. SPQ is working with concerned offices to introduce a new results interface for projects (replacing PPM) and RB-funded activities. It will take time, but the pieces are falling to place. AI/2020/1 (IRPF Guide) provides support to the implementation of the framework, and awareness raising/capacity-building campaigns are envisaged for Q2/3.	raising/capacity-building campaigns are envisaged for Q2/3.			
30	2018	178	EA recommended that UNIDO 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 result 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.	The updated IRPF (GC.18/CRP.4 and AI/2020/1) provides an answer to much of the issue at hand here – or at least provides the conceptual and practical framework to apply the principles and address the current shortcomings. Templates and an IT results interface are still pending development and are scheduled to be finalized by Q3 2020.	EA notes the initiative undertaken by UNIDO to improve its corporate results monitoring and reporting process. Provided in the 2020-03-09 Internal Audit Synthesis Engagement, the Organization is in the process of establishing mechanisms to systematically track and report on programmatic performance/results of its development operations.		X	
31	2018	181	EA recommended that UNIDO 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 log frame.	A new Administrative instruction, which addresses, among others, the issue of Country Programme (CP) monitoring and reporting has been promulgated in June 2019 to introduce the revised approach to UNIDO’s CP Moreover, training sessions to introduce the revised CP approach have been organized for the Regional Divisions and Field Offices. As foreseen in the AI, PTC/PPF organizes an annual meeting with the CP Programme Managers, chaired by the MD/PTC, to review the overall CP portfolio.	EA notes the initiative undertaken by UNIDO to enhance its programme logical framework elements and the results statements through the issuance of new Administrative instruction.	X		

32	2018	185	EA recommended that UNIDO enhance its programme results monitoring and reporting mechanisms by using the expected results identified in the log frame 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 Programmes for Country Partnership's (PCP) results	A new Administrative instruction, which addresses, among others, the issue of CP monitoring and reporting has been promulgated in June 2019 to introduce the revised approach to UNIDO's Country Programme (CP) Moreover, training sessions to introduce the revised CP approach have been organized for the Regional Divisions and Field Offices. As foreseen in the AI, PTC/PPF organizes an annual meeting with the CP Programme Managers, chaired by the PTC/OMD, to review the overall CP portfolio. In the case of PCPs, additional efforts have been put to enhance the quality of reporting. This issued has been addressed as part of the regular PCP coordination meeting that bring together the PCP managers and are chaired by the PTC/OMD.	Cognizant of the Administrative instruction and training sessions undertaken by UNIDO, however, current monitoring and reporting components are still not based on expected results		X	
33		191	EA 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.	A revised version of the DGB/2016/6 was submitted to the EB in 2019 and was approved in principle. Comments received are incorporated and the DGB in the revised version will be announced in the early part of 2020. Preparation of the TC guidelines is ongoing where the issues raised and subsequently reflected upon as noted in the UNIDO response/action column remain applicable.	EA recognizes UNIDO's initiative to comply with the recommendations, preparation of TC guidelines is on-going.		X	
34	2018	196	EA recommended that UNIDO: (a) instruct PMs to update project documents as well as the related submodule in Portfolio and Project Management (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.	Comments provided in the UNIDO response/action column remain applicable. As noted above (para 188-191 refers), the issuance of the revised DGB is planned for 2020 wherein the mentioned mandatory system compliance fact sheet would be applied.	EA acknowledged UNIDOs initiative to comply with the recommendations, as mentioned, a revised version of the DGB/2016/6 was submitted to the EB in 2019.		X	

35	2018	200	EA recommended that UNIDO: (a) Strengthen the project appraisal and approval process by ensuring that the results of the review of the log frames 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 such that recommendations on quality EB improvements of the log frames are given due consideration before these are submitted to the EB.	The revision of DGB/2016/6 is still pending. It was approved in principle by the Executive Board on 22 March 2019; subsequently, a summary of comments was provided by CMO/FIN, CMO/HRM, EPR/ETR and ODG/SPQ. On 20 February 2020, the EB decided that concrete proposals should be prepared for quality assurance and a new approval processes. At the same meeting, the EB approved the work programme of EIO, which includes an independent evaluation of UNIDO’s programme and project formulation, appraisal and approval function, as well as an internal audit of the UNIDO donor reporting. Both are expected to yield recommendations for improvement. In the meanwhile, the UNIDO Quality Assurance Framework (QAF) (DGB/2019/11) has been promulgated on 30 May 2019, which stipulates quality requirements for all UNIDO products, services and processes. This includes programmes and project, as well as the programme and project appraisal and approval process. The Quality Monitoring Division (QUA) systematically collects and analyses data on the quality of UNIDO technical cooperation initiatives before their entry into the portfolio (also reported as IRPF indicator in the Annual Report since 2017). This data, like the audit findings, indicates that the current approval process is not commensurate for sufficient quality assurance particularly in the areas of effectiveness and RBM including logical frameworks. Besides the pending revision of the appraisal and approval process, new guidance and tools have been and will be introduced to support staff in programme and project design and formulation before approval: • IRPF Guide (AI/2020/01) stipulated on 11/2/2020 • Quality Checklist for programme/project documents launched by QUA on 17/1/2020, currently being tested for issuance as administrative issuance to operationalize and satisfy the QAF	EA noted that while revision of DGB/2016/6 is still pending, new guidance and tools have been and will be introduced in order to support staff in programme and project design and formulation before approval. Further, as provided in UNIDO’s response that staff of QUA was continuously reduced from three P staff to one as of 1 January 2020. The P5 holder is on leave, while the other PS holder is assigned as GAD focal. EA emphasized the importance of adequate staffing of the QUA as their expertise function is well suited to provide early advise on programme and project quality.		X	

				• Demand-driven quality advice and trainings (individual, Division, Department). • Training for all staff on the QAF (DGB/2019/11) under preparation, roll out as of Q2 2020 by QUA QUA as per its expertise and function is well suited to provide early advise on programme and project quality; it might, however, be important to note that since 2016 QUA staffing was continuously reduced from three P staff to one as of 1 January 2020.				
36	2018	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.	Please refer to the “EIO INTERNAL AUDIT SYNTHESIS ENGAGEMENT” (Consolidation and Follow-up of Outstanding Internal Audit Recommendations) issued in November 2019.	EA noted during the interim audit that procurement planning has not been implemented, while we also acknowledge UNIDO’s pilot planning for one department by 1 March 2020.		X	
37		211	We recommended that UNIDO: (a) establish funding mechanism to 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.	This is still under internal discussion and consideration by UNIDO management. As part of the ongoing introduction of the Full Cost Recovery process in 2020, it may be possible to address the evaluation fund purpose at the same time	As stated by Management, this is still under internal discussion and consideration and part of the ongoing introduction of the full cost recovery process is the possibility of addressing the independent evaluation.		X	
38	2017	#43	EA recommended that UNIDO strengthen efforts to negotiate payment plans with Member States being in arrears. Member States might also want to consider steps to limit the negative impacts by enabling UNIDO to use assessed contributions to their full extent for programmed core activities within the regular budget even if they are paid after the relevant biennium. For this	Issues of timely payment of assessed contributions regularly reviewed by the Member States including during PBC 35, IDB.47 and GC.18, which is duly reflected in the records and decisions of the Governing bodies. A new payment plan was signed with Dominican Republic in 2019.	EA noted that efforts to negotiate payment plans with MS which have arrears. As of this writing, financial regulations particularly 4.2(b) and (c) are not yet amended.		X	

			purpose, the financial regulations would have to be changed accordingly.					
39	2017	#93	EA recommended that UNIDO to make sure that the working time of PMs and all other supporting services provided for the execution of projects is recorded appropriately. This would be an important step towards effective cost accounting to be used to assess the resources consumed by programme and project activities.	CATS simplification and integration with other Financial modules to be introduced in Q4 2019.	EA noted that simplification of CATS and integration with other Financial modules was only introduced in Q42019.		X	
40	2017	#93	EA recommended UNIDO to make efforts to increase transparency and enhance monitoring and timely reporting on the development of PSC reimbursement income.	FCR has been a priority during 2019 with an agreed action plan and an endorsement by the Executive Board in late October 2019. In 2019 elements of FCR will be launched with a ramp-up in 2020 including new CO (Costing) and Post Budgeting and Costing (PBC) modules in the Enterprise Resource Planning (ERP) system.	EA noted the effort of UNIDO to comply with the recommendations, as provided FCR will be launched with a ramp-up in 2020 including new CO (costing) and Post Budgeting and Costing (PBC) modules in the ERP system.		X	
41	2017	#110	EA recommended updating and assessing 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.	UNIDO is currently working on stand-alone "Accountability Framework", expected to be issued in 2020. As a consequence of that effort, the updating of the UNIDO Internal Control Framework would be a natural step forward. In consultation internally with relevant departments, it has been agreed that Department of Finance, will lead the scope of work for updating the ICF. The UNIDO Risk Management and Business Continuity Focal Point will incorporate the ICF in its work scope, providing input as required. EIO recently issued the "IA Synthesis engagement report" to the DG, where the section related to the Assessment of the RBM System in UNIDO duly confirms the gaps and the efforts being done by management.	EA noted that UNIDO is still currently working on stand-alone "Accountability Framework" and expected to be issued in 2020.		X	
42	2017	#119	EA recommended speeding up and enhancing 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	EIO recently issued the "IA Synthesis engagement report" to the DG, where the section related to the ERM System in UNIDO duly confirms the challenges and efforts being done by management in order to address the issues.	As stated in the IA Synthesis report, due to budget constraints in institutionalizing risk management as a function throughout the Organization, the Risk Management Focal Point prepared a project reflecting the RMC-endorsed workplan for this purpose, which when approved and resourced by		X	

			factored into planning and control processes. Due attention should be given to a transparent and efficient coordination of the implementation process.	Two specific Management Action Plans (MAPs) on this issue have been agreed that will be followed up by EIO internal audit function accordingly. (ref to MAPs 6 and 7) As per MAP 6, UNIDO has established a full time Risk Management and Business Continuity Focal Point (RM&BC FP) function at the D1 level, reporting directly to the Director General. Per MAP7: the RM&BC FP is evaluating strategically viable options for advancing ERM and is in undertaking the process of updating the ERM policy and validating a synthesized corporate risk register.	the EB, will be implemented under the overall supervision of the newly appointed Risk Management and Business Continuity Management Focal Point.			
43	2017	#125	EA encouraged UNIDO to develop a Statement of Internal Control (SIC).	The on-going preparation of the UNIDO Accountability Framework and the updating of the Internal Control Framework will address the existing gaps in responsibilities and accountabilities. Thereafter, the need for a SIC could be assessed.	As per inquiry with Management they have not prepared nor developed a SIC.			X
44	2017	#131	EA recommended • Further developing key performance indicators that permit determining how project performance and results effectively contribute to the achievement of UNIDO's overall strategic goals; • Defining clearly how and under whose responsibility performance assessments provided within UNIDO could be effectively consolidated to form a consistent picture.	In May 2019, the updated IRPF was endorsed (Ref. PBC.35/CRP.11) by the EB and UNIDO's Quality Assurance Framework (QAF) was published (Ref. DGB/2019/11). The definitions and methodologies behind each indicator were finalized through a participative process initiated by SPQ and entailing 5 working groups led by colleagues from the different organizational entities in UNIDO. The updated indicators and plan for operationalization were presented to senior management in a workshop organized by the DG with the support from SPQ in October 2019. The updated indicators and definitions were endorsed by the EB and submitted to the eighteenth session of the General Conference (Ref. GC.18/CRP.4). SPQ is working with organizational entities to operationalize the new IRPF. A Policy on "Management for Integration and Scale-up of Results" has been developed and is awaiting approval by the DG. A guide on "Managing for Results: An Introductory Guide to UNIDO's IRPF Approaches and Tools" has also been produced. It will be made available on the UNIDO intranet and submitted for clearance as	EA noted the updated IRPF which was endorsed by the EB and UNIDO's Quality Assurance Framework. Performance indicators that permit determining how project performance and results effectively contribute to the achievement of UNIDO's overall strategic goals is still in progress.	X		

				Administrative Instruction. Material to build capacities within UNIDO on the IRPF and QAF is being prepared, with a view to rolling out a training campaign in 2020. The new IRPF will be used, compatibly with availability of data, in the preparation of UNIDO's Annual Report 2019. SPQ is also initiating an exercise to map the contribution of UNIDO's impacts to the SDGs based on the Inclusive and Sustainable Industrial Development (ISID) dimensions codified in the IRPF. The exercise will be carried out in close collaboration with other organizational entities.				
45	2017	#145	It is important to have an Audit Advisory Committee (AAC) in place, which continuously contributes to improving the effective functioning of UNIDO's control structures and supports an independent and effective External Audit. The Committee has already defined priorities clearly pointing into these directions. To ensure this, the role and the scope of the Committee should be adequately reflected in UNIDO's rules and regulations and in the ICF.	AAC's role and scope were clearly established in decision IDB.44/Dec.4 and its ToRs. The ToRs are currently under revision to better reflect the mandate, including coverage of all oversight functions as recommended n JIU review (JIU/REP/2019/6 – Review of audit and oversight committees in the United Nations system). The revised TORs, will be submitted for approval to the IDB in 2020. In the ongoing preparation of the updated UNIDO Accountability Framework, and further update of the ICF, the AAC roles and mandates would be included.	EA recognizes that the ICF is still being prepared, which would include the AAC roles and mandates.		X	
46	2017	#152, 153	EA recommended regularly updating the ICT risk register and including general ICT risks e.g. concerning ICT infrastructure in addition to the risks relating to the ERP system. EA recommended identifying and assessing comprehensively ICT risks and required actions and preparing the results in a way that it can effectively be incorporated into UNIDO's overall ERM.	ICT 2018 risks, which covers all elements recommended by the EA, are incorporated into UNIDO ERM under the auspices of the Risk Management Committee (IC/2017/22). We suggest close of this recommendation. ICT related risk has been logged as a crosscutting operational management (MTPF Level 4) risk in the synthesized draft of the corporate risk register. EIO is currently starting an internal audit on IT security to provide inputs/findings and MAPs in relation to this topic in early 2020	EA commends UNIDO in complying the recommendation on ICT risk register, we encourage Management to regularly update the ICT register.	X		
47	2017	#160	EA recommended adopting an accepted Information Security Standard as an initial step to introduce an Information Security Management System (ISMS). EA recommended considering how international standards and best practices for ICT	No progress, given the current resource limitations of the Organization. Suggest merge this recommendation with recommendations ref. #183 and #184, as they are very closely associated.	EA noted that this recommendation was not implemented due to fund/resource limitations. However, EA emphasize the importance of adopting an accepted Information Security Standard as an initial step			X

			Governance and Information Security could be established strengthening UNIDO’s ICT Governance		strengthening UNIDO’s ICT Governance.			
48	2017	#165	EA recommended preparing and implementing an ICT strategy that includes the above-mentioned contents. It was also recommended to ensure a complete and up - to-date set of user manuals and administration manuals in regard to all relevant ICT processes.	ICT Strategy was approved by the Executive Board (EB/2019/11). SOPs including manuals are up to date for IT Services Desk. Suggest close this recommendation.	Since ICT Strategy was approved, hence this recommendation is closed.	X		
49	2017	#183, 184	EA recommended implementing an ISMS and applying the best practice approach of the ISO/IEC 2700x series in an adequate scope and in a timely manner. UNIDO should 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.	No progress, given the current resource limitations of the Organization. Suggest merge this recommendation with recommendation ref. #160 as they are very closely associated.	EA noted that fund limitations caused the non-implementation of these recommendations together with ref. #160, however, UNIDO must prioritize these since ICT Governance is at stake.			X
50	2017	#191	EA recommended that UNIDO 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.	Status stays the same as our last report. Please refer to the management action plan contained in the synthesis report from IOD.	As noted, Procurement plan were not yet prepared while initiatives were undertaken and plans for pilot planning in 2020 Q1 for one department.		X	
51	2017	#207	EA recommended further developing the contract management tool for processing contracts, introducing it as soon as possible and updating the Procurement Manual accordingly with mandatory application of the tools.	Ongoing At present: prototype finalization/fine tuning stage by ITS/expert/PRO of the contract document tool. Tracking of main procurement steps e.g. bank guarantee dates, milestone dates, beginning and ending of contracts etc. – testing beginning of 2020. Thereafter: launching of the contract management tracking of reports.	EA noted during interim audit that UNIDO’s contract management is still in progress. It is still managed in open text; thus, strict monitoring was no yet in place.		X	

52	2017	#223, 224	EA recommended continuously replacing local bank imprest accounts by worldwide operating financial institutions as provided by GBP. Furthermore, EA recommended establishing a centralized unit to capture, enter and maintain vendor and bank master data into SAP.	With the adoption of the Global Banking Project (GBP), imprest accounts increased considerably to 85 in 2017. Since GBP encompasses two financial institutions, the implementation causes some additional workload to process payments. This effect is increased by the fact that vendors (counterparts and third parties) do not have access to SAP. In 2018 and early 2019, 10 accounts were closed and 2 are planned to be closed. The extra accounts in Japan, USA and Switzerland are still under review, otherwise, all double accounts were closed. For the establishment of the centralized unit to register vendor Master bank details, there are currently no budgetary resources. Global banking roll-out follows thorough cost-benefits review. Solution is being integrated with VIM processing design.	EA noted that GBP is sub-optimal particularly for vendor payment due on which unit will perform the inputting of the required bank master data for the creation of new vendor account in the SAP/ERP system.		X	
53	2017	#228	The Bank of China and Citibank of China are mapped to the same G/L account, namely 110120 – Bank of China. Moreover, the Bank of Tokyo Mitsubishi and Citibank Japan LTD are mapped to the same G/L account, namely 110121 – Bank of Tokyo Mi.	The HQ account in Japan with MUFG will be closed. However, the imprest ITPO account in Japan won’t be closed because there is no petty cash solution available. This one will have to be mapped separately. Accounts closure status attached.	Verification of the Citibank of China that was mapped in 110120 was already closed while the MUFG account that was mapped to 110121 has no transactions or with zero balance per bank confirmation reply.	X		
54	2017	#250	EA recommended monitoring the impact of the fast track travel recently established on expense reports and amending rules for travel advances accordingly so that staff members can only opt for no advance or a 100 per cent advance.	The amount of advance was decided not to be regulated in new travel policy. IT enhancements of travel system is still pending due to prioritization of other tasks.	EA noted that amount was not yet regulated in new travel policy and IT enhancement pertaining to travel system is still pending.			X
55	2016	# 35	EA recommended that UNIDO make user manuals available for all key business processes and basic activities in all organizational units that work with the SAP system.	Phased development of accounting user manuals has commenced.	EA noted that for 2019, six accounting manuals were prepared/updated.		X	
56	2016	# 63	EA encouraged UNIDO and Member States to pursue all possibilities to promote efficiency and a sound financial basis for core activities. Member States may wish to consider reducing financial imbalances by	UNIDO advocated to additional voluntary contributions to SAVCCA and MCIF with its member states regularly, using official meetings of the Governing bodies in 2019, namely during the 35th session of PBC and 47th session of the	EA commends UNIDO in its effort to promote efficiency and a sound financial basis for core activities through the IWG on PBC.		X	

			making voluntary funding available for SAVCCA and MCIF.	IDB, as well as during the 2018 and 2019 ongoing sessions of the Informal Working Group on PBC issues, see Chapter IV (e) of the IDB.47/9-PBC.35/9; and updated Medium-term investment plan 2019-2022 IDB.47/14 - PBC.35/14.				
57	2016	# 90	EA recommended that UNIDO establish a proper assessment and monitoring system with regard to the use and expenditure of external services.	ITS has provided a SAP Portal Report AT2 “ISA charged to established positions”.	EA commends UNIDO’s action on providing a SAP Portal Report AT2 “ISA charged to established position”.	X		
58	2016	# 96	EA recommended that UNIDO 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.	Updating of the ISA Framework under review.	EA noted that ISA Framework is still under review.		X	
59	2016	# 103	EA recommended that 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. EA recommended that UNIDO review the existing competition thresholds and lower them, if necessary.	Standardized ranking/assessment sheet (excel document: AT 3 “Template_ISA recruitment rating.xlsx” attached) as well as Assessment report template (word document: AT 4 “Template Candidate assessment report ISA.docx” attached) is provided to the Hiring Offices.	As observed during the interim audit, criteria for the selection of candidates vary with the PM/AH. Also, the record of selection/rejection of candidates is not consistently submitted to CMO/HRM/PAD. Current threshold is still high because in 2019, the maximum contract value was only equivalent to €192,000, thus candidates were selected from the resource pool rather than through competitive selection process.		X	
60	2016	# 109	In EA’s opinion, written records of the reasons for selecting or rejecting each candidate should be kept at the short-listing stage and the final selection stage. UNIDO should 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.	Para 8.2 of ISA Framework is revised to support implementation: “Project Managers/Allotment Holders shall document the selection process, including the reasons for selecting or rejecting each candidate to/from shortlist and to/from final selection, using the standardized ranking and assessing sheets provided by HRM, which shall be kept on file for possible audit or verification.”	EA observed during the interim audit that the latest record of selection/rejection of candidates submitted to CMO/HRM/PAD was 2016.			X

				Attachments as per #103				
61	2016	# 114	EA recommended UNIDO should 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 service referring to the main duties mentioned in the relevant ToR.	ISA Evaluation form has been revised and is ready for implementation after the updated ISA Framework is issued (AT5 document "ZAF_PAY_ISA_FORM.pdf").	EA acknowledged the effort of UNIDO in coming-up with ISA Evaluation form.	X		
62	2016	# 157	EA recommended that UNIDO proceed with implementing this project based on a plan with all necessary information.	Audit comments fulfilled: i.e. RTLS applied for HQs inventory and Physical Verifications for all other PPEs in the UNIDO. Evidences to be shown to Auditors • Draft Property Manual circulated for clearance. • Email 19 June 2019 on roles in OSS/GSL. • Email 30 Aug. 2019 Triggering the annual Asset Verification exercise and Timelines. • PSB Records. • Status of actions to be provided during interview.	EA was provided with the copy of the Property Manual but still awaiting final approval for its implementation, hence, we encourage UNIDO to fast-track its approval.		X	
63	2014	# 114	EA recommended transferring one of these IT systems to another fire section. An alternative but only provisional solution could 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.	Identified risks have been mitigated to the extent practicable. Suggestion is to close this recommendation.	EA recognizes the action undertaken by UNIDO to implement this recommendation.	X		

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 2019, 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 2019, 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 the 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
6 April 2020

COMMISSION ON AUDIT
OFFICE OF THE CHAIRPERSON
20-130902191605

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Report by the Director General

1. I am pleased to present the 2019 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

	2018–19		*2016—17*	
	Millions of euros	*Percentage*	*Millions of euros*	*Percentage*
Assessed contributions receivable	136.7	100.0	134.9	100.0
Received by the end of biennium	126.6	92.6	122.7	91.0
Shortfall in collections	10.1	7.4	12.2	9.0

3. The rate of collection of assessed contributions for the biennium 2018–19 was 92.6 per cent, which is higher than that for 2016–17 at 91.0 per cent. The accumulated outstanding assessed contributions at year-end were €17.8 million, excluding an amount of €71.2 million due from former Member States, leading to an increase from 2018 (€15.8 million). Annex I (e), contained in conference room paper GC.18/CRP.2 provides details on the status of assessed contributions. At present four members States are under payment plan agreements to settle their arrears. The number of Member States without voting rights was 41 in December 2019 – the same as in December 2018.

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, there has been no change to the programme and budget preparation methodology in the United Nations system. 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. A separate section has been included to provide the readers of the financial statements with information on the budget basis. The following paragraphs describe the financial highlights for the year 2019.

6. The comparison is based on the programme and budgets for the biennium 2018–19, as adopted by the General Conference at its seventeenth session (decision GC.17/Dec.18), consisting of regular budget annual gross expenditure of €139.2 million to be financed from assessed contributions in the amount of €136.7 million and other income of €2.5 million.

7. On a budget basis, the actual regular budget expenditure during the biennium 2018-19 amounted to €126.4 million (compared with €128.2 million for the biennium 2016–17), or 90.8 per cent (compared with 92.3 per cent for the biennium 2016–17) of the approved gross expenditure budget.

8. Actual collection of other income for the biennium 2018–19 amounted to €0.9 million from Government contributions to the cost of the field office network against a budgeted amount of €2.4 million. The total net expenditure of €125.4 million represents 91.8 per cent of the net regular budget appropriations of €136.7 million. The resulting balance of net appropriations as at 31 December 2019 amounted to €11.2 million (see annex I (a) and I (b), PBC.36/CRP.2).

9. In the operational budget for the year 2019, the reimbursement for programme support costs amounted to €17.7 million (for 2018: €17.8 million). Expenditure was recorded in the amount of €16.3 million (for 2018: €16.5 million), resulting in an excess of income over expenditure in the amount of €1.4 million (2018: €1.4 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 €21.6 million, compared with an opening balance of €20.2 million, including statutory operating reserve of €3.0 million.

10. Technical cooperation delivery for the year 2019, as measured under IPSAS, amounted to €167.7 million in expenditure, compared to €180.4 million in 2018. More information on UNIDO's technical cooperation services is available in the *Annual Report of UNIDO 2019* (PBC.36/2, IDB.48/2).

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 €452 million. 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 4 and the Charter of the Office of Evaluation and Internal Oversight (EIO), 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 2019 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).

15. 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 2019

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, 13 March 2020

UNIDO
Statement 1: Statement of financial position as at 31 December 2019
(*Thousands of euros*)

	Note	*31 December 2019*	*31 December 2018 (restated)*
		€ ‘000	*€ ‘000*
ASSETS			
Current assets			
Cash and cash equivalents	*2*	451,607	462,950
Accounts receivable (non-exchange transactions)	*3,23*	275,900	240,334
Receivables from exchange transactions	*3*	4,716	1,616
Inventory	*4*	793	813
Other current assets	*5*	24,333	24,833
Total current assets		**757,349**	**730,546**
Non-current assets			
Accounts receivable (non-exchange transactions)	*3,23*	173,494	134,673
Property, plant and equipment	*7*	63,526	60,261
Intangible assets	*8*	769	633
Other non-current assets	*9,23*	1,842	1,614
Total non-current assets		**239,631**	**197,181**
TOTAL ASSETS		**996,980**	**927,727**
LIABILITIES			
Current liabilities			
Accounts payable (exchange transactions)	*10*	4,799	8,084
Employee benefits	*11*	3,203	2,815
Transfers payable (non-exchange transactions)	*10*	40,117	33,782
Advance receipts and deferred income	*12,23*	134,052	108,479
Other current and financial liabilities	*13,23*	18,062	17,481
Total current liabilities		**200,233**	**170,641**
Non-current liabilities			
Employee benefits	*11*	233,900	248,351
Other non-current liabilities	*13,23*	147,229	99,915
Total non-current liabilities		**381,129**	**348,266**
TOTAL LIABILITIES		**581,362**	**518,907**
NET ASSETS/EQUITY			
Accumulated surpluses/(deficits) and fund balances	*14,23*	395,445	391,763
Reserves	*15*	20,173	17,057
TOTAL NET ASSETS/EQUITY		**415,618**	**408,820**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**996,980**	**927,727**

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

UNIDO
Statement 2: Statement of financial performance for year ended 31 December 2019
(*Thousands of euros*)

	Note	*31 December 2019*	*31 December 2018 (restated)*
		€ '000	*€ '000*
INCOME/REVENUE			
Assessed contributions	*16*	68,363	68,351
Voluntary contributions	*16*	146,619	147,214
Investment revenue	*16,23*	431	217
Revenue producing activities	*16,23*	21,539	19,556
Other income	*16,23*	2,905	1,602
TOTAL REVENUE		**239,857**	**236,940**
EXPENDITURE			
Personnel costs and benefits	*17,23*	130,607	128,258
Operational costs	*17,23*	40,443	37,909
Contractual services	*17,23*	69,116	72,586
TC equipment expensed	*17,23*	9,857	15,473
Depreciation and amortization	*17,23*	9,360	8,561
Other expenses	*17,23*	2,117	1,481
TOTAL EXPENDITURE		**261,500**	**264,268**
Operating Surplus		**(21,643)**	**(27,328)**
Currency translation (gains)/losses	*17*	(8,000)	(21,911)
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD		**(13,643)**	**(5,417)**

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

UNIDO
Statement 3: Statement of changes in net assets for year ended 31 December 2019
(*Thousands of euros*)

	Note	*Accumulated surplus/(deficit)*	*Reserves*	*Total net assets/equity*
			€ '000	
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		661		661
Transfer (to)/from provision for delayed contribution		1,264		1,264
Transfer to/(from) reserves			1,127	1,127
Other movements recognized directly in net assets/equity		(216)		(216)
Net movements recognized directly in net assets/equity		**1,709**	**1,127**	**2,836**
Credits to Member States		(3,949)		(3,949)
Net surplus/(deficit) for the year	*23*	(5,275)		(5,275)
Total movement during the year		**(7,515)**	**1,127**	**(6,388)**
Recognition of controlled operation Buildings Management Services	*23*	**(5,659)**		**(5,659)**
Net assets/equity at 31 December 2018 (restated)	*14,15*	**391,763**	**17,057**	**408,820**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities	*11,14*	26,314		26,314
Transfer (to)/from provision for delayed contribution	*14*	(879)		(879)
Transfer to/(from) reserves	*15*		3,116	3,116
Other movements recognized directly in net assets/equity	*14*	48		48
Net movements recognized directly in net assets/equity	*14,15*	**25,483**	**3,116**	**28,599**
Credits to Member States	*14,15*	(8,158)		(8,158)
Net surplus/(deficit) for the year		(13,643)		(13,643)
Total movement during the year		**3,682**	**3,116**	**6,798**
Net assets/equity at 31 December 2019		**395,445**	**20,173**	**415,618**

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

UNIDO
Statement 4: Cash flow statement for year ended 31 December 2019
(*Thousands of euros*)

	Note	*31 December 2019*	*31 December 2018 (restated)*
		€ '000	*€ '000*
Cash flows from operating activities			
Surplus/(deficit) for the period		**(13,643)**	**(5,417)**
Unrealized foreign exchange (gains)/losses		(7,203)	(14,212)
Depreciation and amortization	*7,8*	9,360	8,561
Increase/(decrease) in provision for contributions	*3*	(879)	1,264
Valuation gains/(losses) on employee benefit liabilities	*11*	26,314	661
(Increase)/decrease in inventories	*4*	20	29
(Increase)/decrease in receivables	*3,23*	(81,370)	(103,500)
(Increase)/decrease in other assets	*5*	272	1,613
Increase/(decrease) in advance receipts and deferred income	*12,23*	25,573	43,776
Increase/(decrease) in accounts payable	*10*	(1,225)	12,170
Increase/(decrease) in employee benefits	*11*	(14,063)	9,615
Increase/(decrease) in other liabilities and provisions	*13*	47,895	59,331
(Gains)/losses on sale of property, plant and equipment	*7*	7,906	12,837
Investment/interest income	*6,16*	(4,039)	(2,938)
Transfers to reserves	*14,15*	3,116	1,127
Change in cost-sharing ratios		48	(5,733)
Net cash flows from operating activities		**(1,918)**	**19,184**
Cash flows from investing activities			
Purchase of property, plant and equipment	*7*	(19,865)	(20,556)
Purchase of intangible assets	*8*	(808)	(263)
Proceeds from sale of PPE	*7*	6	10
Net cash flow from investments interest		4,039	2,938
Net cash flows from investing activities		**(16,628)**	**(17,871)**
Net increase/(decrease) in cash and cash equivalents		**(18,546)**	**1,313**
Cash and cash equivalents at beginning of the financial period		462,950	447,425
Unrealized foreign-exchange gains/(losses)		7,203	14,212
Cash and cash equivalents at the end of the financial period	*2*	**451,607**	**462,950**

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

UNIDO
Statement 5: Statement of comparison of budget and actual amounts for year ended 31 December 2019
(*Thousands of euros*)

Regular budget	*Note*	*Original budget*	*Final budget*	*Actuals on comparable basis*	*Balance*
			€ '000		
Income					
Assessed contributions	*16*	68,351	68,351	68,363	(12)
Regional programme		1,216	1,649	148	1,501
Miscellaneous income		35	105	103	2
Total income		**69,602**	**70,105**	**68,614**	**1,491**
Cost component					
Staff costs		46,774	51,782	44,181	7,601
Official travel		1,307	2,038	669	1,369
Operating costs		14,189	16,952	14,296	2,657
Information and communication technology		3,531	4,841	3,749	1,093
Regular programme of technical cooperation, and special resources for Africa		4,641	4,769	4,714	54
Total costs		**70,442**	**80,382**	**67,609**	**12,773**
Balance for the period		**(841)**	**(10,277)**	**1,005**	**(11,282)**

Operational budget	*Original budget*	*Final budget*	*Actuals on comparable basis*	*Balance*
		€ '000		
Income				
Support costs income	17,813	18,316	17,731	585
Miscellaneous income	-	-	916	(916)
Total income	**17,813**	**18,316**	**18,647**	**(331)**
Cost component				
Staff costs	16,596	17,531	15,598	1,933
Official travel	846	1,511	631	880
Operating costs	371	648	218	430
Total costs	**17,813**	**19,690**	**16,447**	**3,243**
Balance for the period	**-**	**(1,374)**	**2,200**	**(3,574)**

Total	*Note*	*Original budget*	*Final budget*	*Actuals on comparable basis*	*Balance*
			€ '000		
Income					
Assessed contributions		68,351	68,351	68,363	**(12)**
Support costs income		17,813	18,316	17,731	585
Regional programme		1,216	1,649	148	1,501
Miscellaneous income		35	105	1,020	(915)
Total income		**87,414**	**88,421**	**87,261**	**1,160**
Cost component					
Staff costs		63,370	69,313	59,779	9,534
Official travel		2,153	3,549	1,300	2,249
Operating costs		14,560	17,600	14,514	3,087
Information and communication technology		3,531	4,841	3,749	1,093
Regular programme of technical cooperation, and Special Resources for Africa		4,641	4,769	4,714	54
Total costs	18	**88,255**	**100,072**	**84,056**	**16,016**
Balance for the period		**(841)**	**(11,651)**	**3,205**	**(14,856)**

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 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 170 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 least developed countries and strategic industrial research and statistical services.

1.7 UNIDO's Headquarters are in Vienna, with liaison offices in Brussels, Geneva and New York. The field network consists of 49 offices, comprising regional hubs and country offices covering 156 countries.

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. 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 the 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 and ending on 31 December.

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 historical 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. Historical cost includes costs that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to UNIDO and the cost of the item can be measured reliably. Repairs and maintenance costs are charged as an expense in the statement of financial performance during the financial period in which they are incurred. 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 for property, plant and equipment, as non-cash generating assets, are undertaken on a yearly basis. An impairment loss is recognized in surplus or deficit in the statement of financial performance when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value, less costs to sell, and its value in use.

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 and other entities

1.43 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, security and medical services and other services. The Organization is party to a joint arrangement with the United Nations, the International Atomic Energy Agency (IAEA) 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, on cost-recovery basis.

1.44 For joint arrangement of buildings management, in which UNIDO is the operator, UNIDO consolidates fully the revenue, expenses, assets and liabilities. Arrangements with services provided by other Vienna-based organizations are expensed when the related services are rendered.

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, including 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, including commutation of annual leave, are largely payable beyond 12 months. Because of the uncertainties concerning the amount and timing of annual leave, it is valued by the professional actuaries and follows the same accounting treatment as other Post-employment Benefits – Defined Benefit Plans, with actuarial gains and losses recognized immediately in the statement of changes in net assets/equity.

United Nations Joint Staff Pension Fund

1.52 UNIDO is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), 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.

Accounting standards issued

1.63 The IPSAS Board has published IPSAS42 Social Benefits, which provides guidance on accounting for social benefits expenditure. UNIDO will be adopting the new standards, as required, effective 1 January 2022 and believes that the adoption of this standard will have no impact on the financial statements.

Restatement of prior year comparative financial information

1.64 Comparative information for 2018 reflects restatements related to recognition of the Buildings Management Services as an internal operation of UNIDO, previously classified as the joint operation of the Vienna-based organizations, in line with control criteria of the IPSAS35-Consolidated Financial Statements, as well as additional recognition of receivables from voluntary contribution agreements and non-current classification for future instalments, in addition to adjustments for Major Repair and Replacement Fund deferral. Further details concerning the restatements are disclosed in note 23.

Note 2. Cash and cash equivalents

	Note	*31 December 2019*	*31 December 2018*
		(thousands of euros)	
Cash and cash equivalents			
Cash in the bank and on hand	*2.1*	81,912	106,604
Short-term deposits	*2.4*	366,275	352,901
Cash and cash equivalents held in field offices	*2.5*	3,420	3,445
Total cash and cash equivalents		**451,607**	**462,950**

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 €360,635 (2018: €368,807), for Buildings Management Service activities €34,648 (2018: €39,971) and for the Major Repair and Replacement Fund €7,662 (2018: €6,523).

2.2 Cash and cash equivalents include cash and term deposits equivalent to €266,207 (2018: €274,274) held in currencies other than the euro. The term deposits are callable at nominal value at any point of time, before the end of arrangement.

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 €2,399 (2018: €2,352) 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 0.10 per cent and 2.84 per cent for holdings in euros and United States dollars respectively (2018: 0.04 per cent and 2.06 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 2019	31 December 2018 (restated)
	(thousands of euros)	
Current		
Receivable from non-exchange transactions		
Due from Member States: assessed contribution	87,114	84,750
Due from Member States: other	8	7
Voluntary contributions receivable	265,880	231,982
VAT and other taxes recoverable	4,131	4,117
Total accounts receivable before allowance	**357,133**	**320,856**
Allowance for doubtful accounts	(81,233)	(80,522)
Net accounts receivable from non-exchange transactions	**275,900**	**240,334**

	31 December 2019	31 December 2018
	(thousands of euros)	
Receivable from exchange transactions		
Receivables from United Nations organizations	3,470	601
Receivables: other	1,934	1,595
Allowance for doubtful accounts	(688)	(580)
Net accounts receivable from exchange transactions	**4,716**	**1,616**

	31 December 2019	31 December 2018 (restated)
Non-current	*(thousands of euros)*	
Receivable from non-exchange transactions		
Due from Member States: assessed contribution	1,877	2,184
Voluntary contributions receivable	173,109	133,790
Allowance for doubtful accounts: assessed contribution	(1,492)	(1,301)
Total receivable from non-exchange transactions	**173,494**	**134,673**

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	*2019 (percentage)*	*2018 (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 2019	31 December 2018
	(thousands of euros)	
Allowance for bad and doubtful accounts at beginning of the year	**79,903**	**81,166**
Change during the year	878	(1,263)
Allowance for bad and doubtful accounts at the end of the year	**80,781**	**79,903**

3.3 Total allowances for bad and doubtful accounts of €83,414 (2018: €82,402) consist of €80,781 (2018: €79,903) against assessed contributions receivable and €2,633 against other receivables (2018: €2,500).

3.4 Non-current contribution receivables are for confirmed contributions from Member States and donors 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 2019		31 December 2018	
	(thousands of euros)	*(percentage)*	*(thousands of euros)*	*(percentage)*
Age				
1–2 years	10,108	11.4	8,914	10.3
3–4 years	2,483	2.8	1,754	2.0
5–6 years	704	0.8	452	0.5
7 years and more	75,696	85.1	75,814	87.2
Total contributions receivable before allowance	**88,991**	**100.0**	**86,934**	**100.0**

Note 4. Inventories

	31 December 2019	31 December 2018
	(thousands of euros)	
Opening inventory	813	842
Purchased during the year	326	348
Total inventory available	**1,139**	**1,190**
Less: consumption	(338)	(376)
Less: write-up/(down)	(8)	(1)
Closing inventory	**793**	**813**

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” basis.

4.2 Inventories are valued net of any impairments or obsolescence. In 2019, UNIDO wrote down inventories by an amount of €8 (2018: €1) on account of obsolescence and other losses.

Note 5. Other current assets

	Note	*31 December 2019*	*31 December 2018*
		(thousands of euros)	
Advances to vendors	*5.1*	19,721	18,071
Advances to staff	*5.2*	2,345	2,453
Accrued interest		866	1,011
E-IOV items	*5.3*	1,396	2,077
Other current assets	*5.4*	5	1,221
Total other assets		**24,333**	**24,833**

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 in 2018 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, the 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:

2019	14.098 per cent
2018	14.098 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 full control over financial and operating policies. Direction of the activities funded by the Buildings Management Services is provided by the Committee on Common Services, which consists of the Heads of Administration/Management of the four Vienna-based organizations, while final responsibility for the services provided lies with the Director General of UNIDO, under whose authority they are operated. Therefore, Buildings Management Services is considered as an internal operation, with costs 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 make 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. 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.

Buildings Management Services: summary financial information

	31 December 2019 (thousands of euros)	31 December 2018 (thousands of euros)
Income	24,012	22,576
Expenses	26,539	22,718
Assets, current	40,862	42,849
Assets, non-current	1,380	1,127
Liabilities, current	17,649	19,254
Liabilities, non-current	27,199	31,309
Net assets/equity	(2,607)	(6,587)

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 2019 (thousands of euros)	31 December 2018 (thousands of euros)
Income	4,770	4,686
Expenses	2,335	3,053
Assets, current	15,272	13,294
Liabilities, current	624	1,081
Net assets/equity	14,648	12,213

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 2019 (thousands of euros)	*31 December 2018 (thousands of euros)*
Income	15,537	15,411
Expenses	15,537	15,411
Assets, non-current	231,185	243,809
Liabilities, non-current	231,185	243,809
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 €2,035 and €221 (2018: €1,995 and €215), 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 Vienna International Centre 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 2019 (thousands of euros)	*31 December 2018 (thousands of euros)*
Revenue	134	131
Net operating expenses	8	9
Assets, current	2,068	1,942
Liabilities, current	-	-
Net assets/equity	2,067	1,942

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 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	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	34,107	1,371	12,396	2,391	8,156	**58,421**
Depreciation charge during the year	1,944	293	1,740	501	3,609	**8,087**
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**

	Buildings	*Furniture and fixtures*	*Information and communications technologies equipment*	*Vehicles*	*Machinery*	***Total***
			(thousands of euros)			
Cost						
At 31 December 2018	70,753	2,682	15,685	3,831	27,748	**120,699**
Additions	392	734	1,846	1,181	15,713	**19,866**
Disposals/transfers	(221)	(1,082)	(1,327)	(1,133)	(9,211)	**(12,974)**
At 31 December 2019	**70,924**	**2,334**	**16,203**	**3,879**	**34,251**	**127,591**
Accumulated depreciation						
At 31 December 2018	36,372	1,369	12,856	2,210	7,631	**60,438**
Depreciation charge during the year	1,954	201	1,966	465	4,124	**8,710**
Disposals/transfers	-	(332)	(1,629)	(518)	(2,604)	**(5,083)**
At 31 December 2019	**38,326**	**1,238**	**13,193**	**2,157**	**9,151**	**64,065**
Net book value						
At 31 December 2018	**34,381**	**1,313**	**2,829**	**1,621**	**20,117**	**60,261**
At 31 December 2019	**32,598**	**1,096**	**3,010**	**1,722**	**25,100**	**63,526**

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 2019, 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 €6,959 (2018: €6,953) 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**

	Software acquired externally	Internally developed software	Total
	(thousands of euros)		
Costs			
At 31 December 2018	1,481	5,368	**6,849**
Additions	728	81	**809**
Disposals/transfers	(378)	-	**(378)**
At 31 December 2019	**1,831**	**5,449**	**7,280**
Accumulated amortization			
At 31 December 2018	972	5,244	**6,216**
Amortization charge during the year	533	117	**650**
Disposals/transfers	(355)	-	**(355)**
At 31 December 2019	**1,150**	**5,361**	**6,511**
Net book value			
At 31 December 2018	**509**	**124**	**633**
At 31 December 2019	**681**	**88**	**769**

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.

8.2 Intangible asset items are reviewed annually to determine if there is any impairment in their value. During 2019, the review of asset impairments indicated no impairments.

Note 9. Non-current assets

	Note	*31 December 2019*	*31 December 2018 (restated)*
		(thousands of euros)	
Initial advance in Commissary	*9.1*	809	809
Advance to the Major Repair and Replacement fund	*9.1*	1,032	804
Other non-current assets		1	1
Total, non-current assets		**1,842**	**1,614**

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

Note 10. Accounts payable

	Note	*31 December 2019*	*31 December 2018*
		(thousands of euros)	
Due to Member States	*10.1*	16,022	11,747
Payables to donors	*10.2*	14,990	11,233
Due to Vienna-based organizations	*10.3*	9,105	10,802
Payables to vendors	*10.4*	4,799	8,084
Total accounts payable		**44,916**	**41,866**

	31 December 2019	*31 December 2018*
	(thousands of euros)	
Composition:		
Payables from exchange transactions	4,799	8,084
Payables from non-exchange transactions	40,117	33,782
Total accounts payable	**44,916**	**41,866**

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.

10.4 Payables to vendors constitute amounts due for goods and services for which invoices have been received.

Note 11. Employee benefits

	31 December 2019			31 December 2018
	Actuarial valuation	UNIDO valuation	Total	
	(thousands of euros)			
Short-term employee benefits		3,203	3,203	2,815
Post-employment benefits	227,170		227,170	242,393
Other long-term employee benefits	6,730		6,730	5,958
Total employee benefit liabilities	**233,900**	**3,203**	**237,103**	**251,166**

	31 December 2019	31 December 2018
	(thousands of euros)	
Composition:		
Current	3,203	2,815
Non-current	233,900	248,351
Total employee benefit liabilities	**237,103**	**251,166**

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 2019, total employee benefit liabilities amounted to €237,103 (2018: €251,166), of which €233,900 (2018: €248,351) was calculated by the actuaries and €3,203 (2018: €2,815) was calculated by UNIDO.

Short-term employee benefits

11.2 Short-term employee benefits relate to salaries, home leave travel, education grants and open settlements with insurance companies.

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 2019. 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 2019:

- *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 UNJSPF, together with rates for withdrawal and retirement.
- *Discount rate*. 1.21 per cent (2018: 2.16 per cent) for after-service health insurance and 0.53 per cent (2018: 1.37 per cent) for repatriation, annual leave and end-of-service allowance.
- *Medical cost trend rates*. 3.65 per cent for Euro, 3.85 per cent for United States Dollar. The rates stabilize thereafter.
- *Rate of salary increase*. 2.00 per cent (2018: 2.00 per cent), but varying according to age, category and individual progression.
- *Repatriation grant*. It is assumed that all Professional staff are eligible for repatriation benefits and will receive them upon separation from service.
- *Repatriation travel costs*. 0.00 per cent (2018: 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	52,852	(39,484)
Effect on combined service and interest cost	3,654	(2,577)

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 2018	**223,442**	**9,626**	**5,958**	**9,325**	**248,351**
Service costs	9,314	444	560	504	**10,822**
Interest costs	4,784	120	78	123	**5,105**

	After-service health insurance	Repatriation benefits	Annual leave	End-of-service allowance	Total
	(thousands of euros)				
Actual gross benefit payments	(3,460)	(195)	(139)	(270)	**(4,064)**
Actuarial gains and losses arising from changes in demographic assumptions	89	10	4	17	**120**
Actuarial (gains)/losses arising from changes in financial assumptions	(27,919)	478	269	738	**(26,434)**
Defined benefit obligation at 31 December 2019	**206,250**	**10,483**	**6,730**	**10,437**	**233,900**

Annual expense for the year 2019

	After-service health insurance	Repatriation benefits	Annual leave	End-of-service allowance	Total
	(thousands of euros)				
Service cost	9,314	444	560	504	**10,822**
Interest costs	4,784	120	78	123	**5,105**
Total expense	**14,098**	**564**	**638**	**627**	**15,927**

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

11.13 The defined benefit obligations are unfunded and are managed on pays-as-you go basis.

United Nations Joint Staff Pension Fund

11.14 UNIDO’s financial obligation to 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.

11.15 In 2019, UNIDO’s contribution payments to UNJSPF amounted to €9,669 (2018: €8,742). Expected contributions due in 2020 are approximately €9,700.

11.16 The actuarial valuations are undertaken every two years, with the most recent valuation carried out as of 31 December 2017, and the valuation as of 31 December 2019 is currently being performed. The consulting actuary concluded that there was no requirement, as of 31 December 2017, for deficiency payments under Article 26 of the Regulations of UNJSPF.

11.17 The United Nations Board of Auditors carries out an annual audit of UNJSPF and reports to the UNJSPF Pension Board and to the United Nations General Assembly annually. 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 2019	31 December 2018 (restated)
			(thousands of euros)
Advances from non-exchange transactions			
Assessed contributions in advance	12.1	533	758
Voluntary contributions in advance	12.2	34,477	28,242
Performance obligation for voluntary contributions agreements	12.3	26,144	33,981
Major Repair and Replacement Fund deferral	12.4	7,324	6,505
Advances from non-exchange transactions		**68,478**	**69,486**

	Note	31 December 2019	31 December 2018 (restated)
			(thousands of euros)
Advances from exchange transactions			
Advances from Vienna International Centre-based organizations	12.5	2,481	2,492
Total advance receipts		**70,959**	**71,978**
Deferred project income	12.6	63,093	36,501
Total advance receipts and deferred income		**134,052**	**108,479**

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 future instalments from donor agreements, subject to the fulfilment of the restrictions and completion of the required procedures.

Note 13. Other liabilities

	Note	31 December 2019	31 December 2018 (restated)
		(thousands of euros)	
Other current liabilities			
Deferred exchange gains	*13.1*	-	2,433
Accruals for goods/services received-but-not-paid	*13.2*	14,612	11,614
Other liabilities	*13.3*	3,450	3,434
Total other current liabilities		**18,062**	**17,481**
Other non-current liabilities			
Deferred project income	*13.4*	115,660	66,466
Deferred income – Vienna International Centre performance obligation	*13.5*	31,236	33,114
Long-term guarantees – bank/rent deposit		333	335
Total other non-current liabilities		**147,229**	**99,915**

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. The funds were transferred into Reserves in 2019 (Note 15) to better reflect their nature.

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 Deferred project income are future instalments from donors' agreements, subject to the fulfilment of the restrictions and completion of the required procedures, due after more than one year.

13.5 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 €1,357 (2018: €1,260) reduces the performance obligation valued at the UNIDO share of the Vienna International Centre buildings net book value of €32,592 (2018: €34,259).

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 31December 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)**
Recognition of controlled operation	928	-	-	-	(6,587)	**(5,659)**
Balance as at 31 December 2018	**(172,974)**	**4,690**	**7,423**	**570,098**	**(17,474)**	**391,763**
Net surplus/(deficit) for the year	(879)	311	-	(10,022)	(3,053)	**(13,643)**
Subtotal	**(173,853)**	**5,001**	**7,423**	**560,076**	**(20,527)**	**378,120**
Movements during year						
Credits to Member States	(8,158)	-	-	-	-	**(8,158)**
Transfer (to)/from provision for delayed contribution	(879)	-	-	-	-	**(879)**
Actuarial gains/(losses)	11,818	(4)	-	1,805	12,695	**26,314**
Other adjustments	48	-	-	-	-	**48**
Total movements during year	**2,829**	**(4)**	**-**	**1,805**	**12,695**	**17,325**
Balance as at 31 December 2019	**(171,024)**	**4,997**	**7,423**	**561,881**	**(7,832)**	**395,445**

Regular budget general fund

14.1 The negative regular budget general fund balance is a consequence of unfunded long-term employee benefits liabilities amounting to €233,900 (2018: €248,351).

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 assessment 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 2019 (restated)*	*Movements during the year*	*Net surplus/(deficit) for the year*	*31 December 2019*
			(thousands of euros)		
Computer Model for Feasibility Analysis and Reporting fund	*14.5*	131	-	10	**141**
Operational budget	*14.6*	(14,691)	6,187	(428)	**(8,932)**
Fund for the Programme for Change and Organizational Renewal	*14.7*	213	-	(179)	**33**
Special Account of Voluntary Contributions for Core Activities	*14.8*	161	-	40	**201**
Major Capital Investment Fund	*14.9*	2,481	-	12	**2,493**
Regular budget supplementary appropriation: Vienna International Centre security	*14.10*	575	-	-	**575**
Sales publication revolving fund	*14.11*	243	-	20	**264**
Buildings Management Services	*14.12*	6,587	6,508	(2,528)	**(2,607)**
Total		**(17,474)**	**12,695**	**(3,053)**	**(7,832)**

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 €28,398 (2018: €31,837).

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 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). 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 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 re-printing 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.

14.12 Buildings Management Services are responsible for the operation and management of the physical plant of the premises of the Vienna International Centre, with UNIDO assigned as the operating agency on behalf of the Vienna-based organizations (Note 6.3–6.4).

Note 15. Reserves

	Note	*1 January 2019*	*Movement during the year*	*31 December 2019*
			(thousands of euros)	
Project personnel separation reserve	*15.1*	1,952	37	1,989
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*	4,313	457	4,770
Reserve for exchange rate fluctuations	*15.6*	1,769	2,622	4,391
Total		**17,057**	**3,116**	**20,173**

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 $18,547. 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. The balance of the reserve as of 31 December 2019 was €1,960 (2018: €1,769).

15.7 The remaining balance of realized gains of € 2,431 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, was transferred from other non-current liabilities (Note 13) to better reflect its nature.

Note 16. Revenue

	Note	*31 December 2019*	*31 December 2018 (restated)*
		(thousands of euros)	
Assessed contributions	**16.1**	**68,363**	**68,351**
Voluntary contributions			
For technical cooperation		146,003	146,432
For support to regular activities		616	782
Subtotal, voluntary contributions	**16.2**	**146,619**	**147,214**
Investment revenue	**16.3**	**431**	**217**
Revenue producing activities			
Contribution to the Buildings Management Services	16.4	19,820	18,460
Sales publications		70	88
Computer Model for Feasibility Analysis and Reporting		86	102
Other sales		1,563	906
Subtotal, revenue producing activities	**16.5**	**21,539**	**19,556**
Miscellaneous income			
Transfer to reserve for exchange fluctuation	**16.6**	(191)	(614)
Release of performance obligation for the Vienna International Centre	**16.7**	1,892	1,887
Contribution in kind – Vienna International Centre land	**16.8**	240	233
Other miscellaneous income	**16.9**	964	96
Subtotal, miscellaneous income		**2,905**	**1,602**
TOTAL REVENUE		**239,857**	**236,940**

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, the amount of €68,363 represents one-half of the biennial amount assessed for 2019 totalling €68,351, plus contributions received from new Member States, totalling €12. 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 Contribution to the Buildings Management Services from Vienna-based organizations according to the approved ratio (Note 6.2).

16.5 Income from revenue-producing activities consists of sales of publications and the Computer Model for Feasibility Analysis and Reporting, and cost recovery for technical and Buildings Management Services.

16.6 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).

16.7 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.

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

16.9 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

16.10 Contributions of services in kind estimated at €3,927 (2018: €3,065) 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 2019	*31 December 2018*
	(thousands of euros)	
Contributions of services in kind for the use of:		
Office space	1,220	1,059
Furniture and fixtures	15	13
Communications and information technology equipment	17	10
Vehicles	42	29
Machinery, tools	1,052	935
Utilities	48	35
Other goods/services	355	109
Contribution to conferences, workshops and training	175	91
Personnel services	1,004	721
United Nations Development Programme administered Junior Professional Officers	84	61
Total	**4,011**	**3,065**

Note 17. Expenses

	Note	*31 December 2019*	*31 December 2018 (restated)*
		(thousands of euros)	
Staff salaries		44,308	41,780
Staff entitlements and allowances		35,262	33,194
Temporary assistance		1,006	1,001
Subtotal Staff Costs		80,576	75,975
International Consultants		29,317	31,117
National experts		14,885	15,320
Administrative support and other consultancies		5,829	5,846
Subtotal, Project personnel and consultancies		50,031	52,283
Subtotal Personnel costs and benefits	**17.1**	**130,607**	**128,258**
Regular travel		1,483	1,655
Project travel		9,628	10,407
Rental, utilities and maintenance		18,408	15,839
Inventory consumed/distributed		1,199	1,036

	Note	31 December 2019	31 December 2018 (restated)
		(thousands of euros)	
Information technology, communications and automation		3,191	2,939
Supplies and consumables		1,524	1,743
Other operating costs		4,435	3,903
Project operating costs		575	387
Subtotal, operating costs	**17.2**	**40,443**	**37,909**
Contractual services	**17.3**	**69,116**	**72,586**
Equipment expensed	**17.4**	**9,857**	**15,473**
Depreciation and amortization	**7,8**	**9,360**	**8,561**
Other expenses	**17.6**	**2,117**	**1,481**
TOTAL EXPENDITURE		**261,500**	**264,268**
Currency translation (gains)/losses	**17.7**	(8,000)	(21,911)

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 €1,111 (2018: €1,110).

17.6 Other expenses include bank charges of €104 (2018: €107).

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 0.876 in 2018 to 0.896 in 2019 (2017: 0.837).

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 2019 is presented below:

	Operating	*Investing*	*Total*
	(thousands of euros)		
Surplus of Income (statement 5)	14,856	-	**14,856**
Basis differences	(1,700)	(1,289)	**(2,989)**
Presentation differences	(11,138)	-	**(11,138)**
Entity differences	(3,936)	(15,339)	**(19,275)**
Actual amount in the statement of cash flow (statement 4)	**(1,918)**	**(16,628)**	**(18,546)**

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. In line with the Financial Regulation 4.2 (a) the 2019 final budget includes unutilized part of 2018 appropriations approved by GC.17/Dec.18 for the 2018–2019 biennium.

Staff costs

18.9 The regular budget staff costs for Professional and General Service posts were utilized at 94.46 per cent, which is in line with the consumption pattern for the second year of the biennium. Due to the uncertainty in the payment of assessed contributions by Member States, the vacancy factor in 2019 was maintained at a higher level than budgeted. However, compared to the second year of the prior biennium the regular budget vacancy rate in 2019 went down to 13 per cent for professional and higher categories and 5.6 per cent for general service (in 2017, 17 per cent and 12 per cent respectively).

Official travel

18.10 The budget for official travel was underutilized by €1.4 million of the final budget. Efficiency gains and savings were achieved through targeted efforts to use information and communications technology instead of physical travel, as well as optimization of travel policies and procedures.

Operating costs

18.11 Savings in operating costs in the amount of €2.7 million were achieved due to reduced requirements for UNIDO's contribution to the security and safety services of €0.4 million, as a result of a separate funding pool accumulated due to savings in building maintenance and charging part of the related expenditures to technical cooperation activities through direct cost recovery in 2019. Further, efficient use of public information services, translation, interpretation and document production reported an underutilization of €1.0 million. Prudent operations management resulted in savings of another €1.0 million 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 €0.3 million.

Information and communications technology

18.12 The underutilization of €1.1 million in resources for information and communications technology is mainly attributable to an efficient use of long term agreements resulting in reductions in common service charges and savings achieved due to optimization of communications services, formerly provided by UNOV, as UNIDO continues to make concerted effort at technological efficiency and seeking alternative arrangements with its service providers.

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 €0.05 million was recognized under Special Resources for Africa.

Note 19. Segment reporting

A: Statement of financial position by segment as at 31 December 2019

	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	22,968	360,635	68,004	-	**451,607**
Accounts receivable (non-exchange transactions)	9,056	265,934	910	-	**275,900**
Receivables from exchange transactions	(59)	290	4,485	-	**4,716**
Inventories	-	-	793	-	**793**
Other current assets	5,429	22,151	429	(3,676)	**24,333**
Subtotal, current assets	**37,394**	**649,010**	**74,621**	**(3,676)**	**757,349**
Non-current assets					
Receivables	385	173,109	-	-	**173,494**
Property, plant and equipment	34,047	27,997	1,482	-	**63,526**
Intangible assets	168	209	392	-	**769**
Other non-current assets	1,841	1	-	-	**1,842**
Subtotal, non-current assets	**36,441**	**201,316**	**1,874**	**-**	**239,631**
TOTAL ASSETS	**73,835**	**850,326**	**76,495**	**(3,676)**	**996,980**
LIABILITIES					
Current liabilities					
Accounts payable (exchange transactions)	2,223	2,362	214	-	**4,799**
Employee benefits	2,763	320	120	-	**3,203**
Transfers payable (non-exchange transactions)	16,021	14,981	12,791	(3,676)	**40,117**
Advance receipts	534	123,714	9,804	-	**134,052**
Other current liabilities	3,906	11,430	2,726	-	**18,062**
Subtotal, current liabilities	**25,447**	**152,807**	**25,655**	**(3,676)**	**200,233**
Non-current liabilities					
Employee benefits	173,358	4,946	55,596	-	**233,900**
Other non-current liabilities	31,236	115,993	-	-	**147,229**
Subtotal, non-current liabilities	**204,594**	**120,939**	**55,596**	**-**	**381,129**
TOTAL LIABILITIES	**230,041**	**273,746**	**81,251**	**(3,676)**	**581,362**
NET ASSETS/EQUITY					
Accumulated surpluses/(deficits): fund balances	(162,720)	576,549	(4,741)	-	**409,088**
Current period surplus/(deficit)	(879)	(9,711)	(3,053)	-	**(13,643)**
Reserves	7,393	9,742	3,038	-	**20,173**
TOTAL NET ASSETS/EQUITY	**(156,206)**	**576,580**	**(4,756)**	**-**	**415,618**
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**73,835**	**850,326**	**76,495**	**(3,676)**	**996,980**

B: Statement of financial performance by segment for the year ended 31 December 2019

	Regular budget activities	Technical cooperation	Other activities and special services	Inter-segment transactions	Total UNIDO
	(thousands of euros)				
INCOME/REVENUE					
Assessed contributions	68,363	-	-	-	**68,363**
Voluntary contributions	653	145,431	535	-	**146,619**
Investment revenue	26	366	39	-	**431**
Revenue producing activities	186	3	39,196	(17,846)	**21,539**
Other	3,136	4,357	3,530	(8,118)	**2,905**
TOTAL REVENUE	**72,364**	**150,157**	**43,300**	**(25,964)**	**239,857**
EXPENDITURE					
Personnel costs and benefits	50,151	51,310	29,146	-	**130,607**
Operational costs	13,119	14,616	16,185	(3,477)	**40,443**
Contractual services	2,593	66,362	161	-	**69,116**
Technical cooperation equipment expensed	107	9,643	107	-	**9,857**
Depreciation and amortization	2,715	5,900	745	-	**9,360**
Other expenses	4,679	19,929	(4)	(22,487)	**2,117**
TOTAL EXPENDITURE	**73,364**	**167,760**	**46,340**	**(25,964)**	**261,500**
Currency translation differences	(121)	(7,892)	13	-	**(8,000)**
SURPLUS/(DEFICIT) FOR PERIOD	**(879)**	**(9,711)**	**(3,053)**	**-**	**(13,643)**

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 2019, activities have created inter-segment balances in the amount of €4,151, €490, €17,848 and €3,477 (2018: €4,051, €510, €17,917 and €3,259) in the statement of financial performance from internal contributions to the regular programme of technical cooperation, special resources for Africa, programme support costs and Buildings Management Services, 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 €1,909 (2018: €1,839). 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 2019	335	12	-	347
31 December 2018	294	3	-	297

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 2019	*31 December 2018*
	(thousands of euros)	
Regular budget	2,539	1,008
Trust fund	34,722	31,429
Montreal Protocol on Substances that Deplete the Ozone Layer	55,231	57,944
Global Environment Facility	109,644	101,441
Industrial Development Fund	7,167	10,010
Inter-organization arrangements	255	67
Regular programme of technical cooperation	1,407	1,287
Special services and other	367	215
Total commitments	**211,332**	**203,402**

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 €178 (2018: €392).

20.7 Contingent liabilities on pending cases under Appendix D of the Staff Rules for possible retroactive payment amounted to €93 (2018: €63). Contingent liabilities for other claims amounted to €164 (2018: €1).

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

21.1 UNIDO made Ex-gratia and special claims payments during 2019 of €11 (2018: €79).

21.2 The value of property, plant and equipment written off during the year due to loss/theft amounts to €11 (2018: €17).

21.3 During 2019 UNIDO did not incur any cash losses (2018:24).

Note 22. Related party and other executive management disclosure

Key management personnel

	No. of individuals	*Aggregate remuneration*	*Other compensations*	*Total remuneration 2019*	*Outstanding advances against entitlements 31 December 2019*
			(thousands of euros)		
Director General	1	411	107	518	-
Deputy to the Director General	1	217	-	217	-
Managing Directors	2	466	-	466	-

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 UNJSPF.

22.6 Advances made against entitlements of key management personnel in accordance with staff rules and regulations amounted to €0 as at 31 December 2019 (2018: €11).

Note 23. Opening balances adjustments

23.1 Opening balances were restated to include adjustments, which pertain to the change in accounting policy on de-recognition of the Buildings Management Services as the joint operation of the Vienna-based organizations, in line with control criteria of the IPSAS35-Consolidated Financial Statements and its classification as an internal operation of UNIDO.

	Assets	*Liabilities*	*Equity*
Impact on the Statement of Financial Position	*(thousands of euros)*		
Accounts receivable (non-exchange transactions)	(6,588)		
Advance receipts and deferred income		(929)	
Accumulated surpluses			(5,659)

23.2 The Buildings Management Services deferral for negative net assets of €6,588 and amount due for UNIDO's share of the negative net assets of €929, were de-recognized.

	Income	*Expenses*	*Deficit*
Impact on the Statement of Financial Performance	*(thousands of euros)*		
Income of BMS operation	19,317		
Expenses of BMS operation		19,459	
Deficit for the period			(142)

23.3 Income and expenditure of the Buildings Management Services are recognized as UNIDO's own income and revenue.

23.4 Additional voluntary contributions receivable under instalments restrictions of €7,891 have been recognized under current assets and €15,467 under non-current assets, along with a restatement for the non-current portion of previously recognized future instalments, due after more than one year, and corresponding deferred project income of €50,999.

23.5 Major Repair and Replacement Fund deferral was increased for adjustment in goods/services accrual by €799.

Note 24. Events after reporting date

24.1 Reporting date of UNIDO is 31 December 2019. 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.