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Vienna, 12–15 July 2021
Item 4 (a) of the provisional agenda
Report of the External Auditor for 2020

Programme and Budget Committee
Thirty-seventh session
Vienna, 26–28 May 2021
Item 4 of the provisional agenda
Report of the External Auditor for 2020

**Report of the External Auditor on the accounts of the
United Nations Industrial Development Organization for
the financial year 1 January to 31 December 2020**

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СЧЕТНАЯ ПАЛАТА РОССИЙСКОЙ ФЕДЕРАЦИИ ACCOUNTS CHAMBER OF THE RUSSIAN FEDERATION

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LETTER OF TRANSMITTAL

Dear Mr. Djumala,

It is my honour to present the External Auditor's report for the United Nations Industrial Development Organization (UNIDO) to the 49th Industrial Development Board at the 37th session of the Programme and Budget Committee. The report includes the auditor's observations and opinion on UNIDO's financial statements for the year ended December 31, 2020.

Aleksei Kudrin

*Chairman
Accounts Chamber of the Russian Federation*



To H.E. Mr. Darmansjah Djumala

President of the forty-eight session of the Industrial Development Board
United Nations Industrial Development Organization

Vienna, Austria

INDEPENDENT AUDITOR'S REPORT

To the Industrial Development Board of United Nations Industrial Development Organization

Report on the Audit of the Financial Statements

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNIDO as at December 31, 2020, and its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

We have audited the financial statements of United Nations Industrial Development Organization (UNIDO) for the year ended December 31, 2020. The financial statements comprise:

- Statement of financial position as at 31 December 2020;
- Statement of financial performance for the year ended 31 December 2020;
- Statement of changes in net assets for the year ended 31 December 2020;
- Cash flow statement for the year ended 31 December 2020;
- Statement of comparison of budget and actual amounts for the year ended 31 December 2020; and
- Notes to the financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described below in the "Auditor's Responsibilities for the Audit of the Financial Statements" section. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Other information

Management is responsible for the other information. The other information obtained as at the date of this auditor's report includes the current report on UNIDO's financial situation but does not include the financial statements or 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 an assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement in 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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, 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 the financial statements.

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.
- Draw conclusions 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. However, future events or conditions may cause UNIDO to cease to continue as a going concern.
- 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

In our opinion, the transactions of UNIDO that have come to our notice or that we have tested as part of our audit were found to have been, in all significant respects, in compliance with UNIDO's financial regulations and rules, as well as with the law.

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

Chairman

Mr. Aleksei Kudrin

Accounts Chamber of the Russian Federation

External Auditor

Moscow, Russia

April 16, 2021



Executive summary

Overview

An external auditor report provides a yearly review on an organization's operations. This report includes the independent auditor's report and an assessment of the business processes in scope of the audit. The assessment considers whether operations were performed economically, efficiently and effectively and were in compliance with widely accepted international best practices in the public sector. One of the highest priorities for an external auditor is to focus on risks and on the interests of key stakeholders.

Key highlights

Audit objective

Scope of the audit and standards used by the audit team

The Director General (the "DG") is responsible for preparing annual financial statements in accordance with Article X of UNIDO's Financial Regulations and Rules (the "FR") and in conformity with the International Public Sector Accounting Standards ("IPSAS"). The audit of the financial statements for the year ended December 31, 2020 was prepared in accordance with the International Standards on Auditing ("ISA"). Additional observations on business processes were performed by applying ISSAI and ISO.

Pursuant to General Conference (the "GC") Decision No. GC.18/Dec.7, Mr. Aleksei Kudrin has been appointed as the External Auditor (the "EA") for UNIDO through June 30, 2022. Mr. Kudrin assigned an audit team from the Accounts Chamber of the Russian Federation ("ACRF") to perform the audit. The ACRF audit team performed the financial audit of UNIDO's 2020 financial statements and the performance audit, as stated in Article 11.4 of the FR.

The audit scope includes the following areas:

- **A financial statements audit** to ensure that the financial statements were free from material misstatements.
- **A performance audit** to consider whether financial management and governance is economical, efficient and effective (3E concept) and capable of achieving the organization's mission and strategic plans. Five areas were selected for this part of the audit (see "Areas of focus" below).
- **An IT audit** was integrated into the financial statements audit, but the final observations also touch upon the conclusions from the performance audit. The procedures were focused on two main streams:
 - **Effectiveness of IT general controls (ITGC):** An evaluation of IT general controls to assess the reliability and integrity of key applications used by UNIDO (SAP ERP, SAP SRM).
 - **Cybersecurity assessment.** An assessment of how UNIDO handles cybersecurity-related risks and an assessment of UNIDO's technical preparedness for a cyber-attack launched on UNIDO's external IT infrastructure. The COVID-19 pandemic has led to changes in how organizations work, as more employees work remotely and access internal resources from outside the office. As a result, cybersecurity has become an even more critical issue.

Audit opinion

In accordance with Article XI of the FR, the responsibility of the external auditor is to express an opinion on UNIDO's financial statements, which comprise the following:

- Statement of financial position (statement 1) as at 31 December 2020;
- Statement of financial performance (statement 2);
- Statement of changes in net assets (statement 3);
- Cash flow statement (statement 4);
- Statement of comparison of budget and actual amounts for the year ended 31 December 2020 (statement 5);
- Notes to the financial statements.

We issued an unqualified auditor's report regarding UNIDO's financial statements as at December 31, 2020, and for the year then ended.

Audit Approach

The ACRF Audit guide based on ISA and ISSAI was applied.

The key points of the approach included:

- **Defining materiality:** We assessed the threshold for aggregated misstatements for financial statement line items and the tolerance for individual misstatements.
- **Developing an understanding of business processes and accounting policies:** We documented narratives (how each business process is organized) and walked through them by ourselves to verify the accuracy of the documented descriptions.
- **Identifying audit risks:** Based on our documented understanding of key business processes and assuming the exposure to risk from a materiality standpoint, we identified significant risks (including fraud) and risks at the assertion level. In addition, we identified potential wrong-doings at the assertion level and corresponding controls that may mitigate the risk of error.
- **Performing substantive work:** This included a mix of analytical procedures and a test of details. The test of details was based on a defined sample size. Sampling was based on a combination of specific items (susceptible to higher risk) and randomly selected items using professional judgement. An additional sample size was selected based on data science tools applied by the audit team.
- **Performing an IT audit:** This included an IT general controls (ITGC) assessment and cybersecurity assessment. The work was limited to considering the risks and the corresponding control procedures related to the financial statements for in-scope information systems and does not represent a full-scale IT audit. Thus, the list of recommendations does not relate to all risks that UNIDO may be exposed to.
- **Assessing ITGC,** which were found to be ineffective. Therefore, the evaluation of IT and IT-related controls was focused on high-risk areas and a limited assessment of control design.
- **Performing a maturity assessment and penetration test** to support conclusions on whether UNIDO is protected from the cyber risks to which it is exposed.
- **Conducting a performance audit:** This included an assessment of the five selected processes and an analysis of whether resources were used economically, efficiently and effectively in such a way that supports UNIDO’s achievement of the UN SDGs.

Areas of focus

We identified the key business processes that cover UNIDO’s core operations. We audited these business processes as part of the audit of financial statements for the year ended December 31, 2020. We also selected business processes for the performance audit as indicated below.

BUSINESS PROCESSES IN SCOPE

A. FINANCE AUDIT

- A.1.1. Financial statement closure process (“FSCP”)
- A.1.2. Cash receipts, cash disbursements
- A.1.3. Revenue and receivables
- A.1.4. Property, plant and equipment (“PPE”)
- A.1.5. Employee benefits
- A.1.6. Foreign exchange differences (“FOREX”)
- A.1.7. Procurement (including expenses and payables)

B. PERFORMANCE AUDIT





- B.1. Organizational structure
- B.2. Project management (“PM”)
- B.3. Full cost recovery (expenditure, “FCR”)
- B.4. Budget
- B.5. Procurement

C. IT AUDIT

- C.1. ITGC
- C.2. Cybersecurity

The External Auditor’s report on the 2020 financial year contains the auditor’s main observations, findings and recommendations. UNIDO’s financial statements, as well as the auditor’s report and audit opinion, were discussed with UNIDO management (the “Management”). The DG took note of the report’s contents and agreed with the findings. In the section below, we provide an overview of the key audit observations related to business processes.

Priority of the observations:

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p> Critical level of risk assigned to weaknesses that have a fundamental impact and require immediate action</p> | <p> Medium level of risk assigned to weaknesses that may increase the likelihood of errors/incidents (remediation is recommended in the short term)</p> |
| <p> High level of risk assigned to weaknesses that have a considerable impact (second-level priority)</p> | <p> Low level of risk assigned to weaknesses that may increase the likelihood of errors/incidents (remediation is recommended within the next year)</p> |

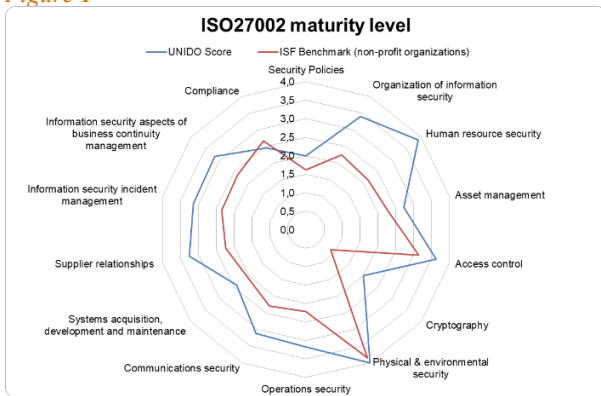
Key audit observations

1. Cybersecurity

Information security continues to be a pressing issue, especially following the onset of the COVID-19 pandemic. We evaluated UNIDO’s information security (IS) technical controls and processes based on:

- **A maturity assessment of IS governance and technical controls** under ISO/IEC 27001.
- **An assessment of UNIDO’s technical preparedness against cyber-attacks** over its external IT infrastructure.
- **Benchmarking of UNIDO’s IS maturity** versus the average maturity level at non-profit organizations using the ISF Benchmark database.

Figure 1



Recommendation

Status: pending resolution

Critical

Based on the gap analysis of information security and benchmarking, we identified that UNIDO has an above-average level of IS maturity in comparison with other not-for-profit organizations. Meanwhile, the assessment of UNIDO’s technical preparedness against cyber-attacks identified several critical vulnerabilities, including the following attack scenarios:

- Certain @unido.org user accounts were compromised, allowing access to the on-premises data exchange service and an extensive set of confidential internal data;
- UNIDO’s statistical data portal managed by a third party was compromised, which could have allowed the auditors to disrupt its normal mode of operations and create fake data.

To improve information security, we recommend that UNIDO begin using a top-down approach to manage its information security function and to establish third-party cybersecurity, vulnerability assessment and IS incident monitoring processes.

Management response

AGREE. UNIDO is proposing additional resources in its 2022-2023 budget.

2. IT general controls (ITGC)

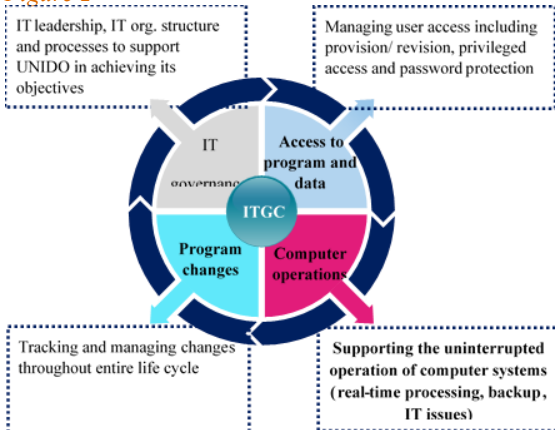
As part of the financial statement audit, we evaluated IT general controls to assess the reliability and integrity of the key applications used by UNIDO.

The following applications were included in the audit scope:

- SAP ERP;
- SAP SRM.

The evaluation of in-scope information systems covered the following IT domains:

Figure 2



Recommendation

Status: partially resolved

Critical

Management performed its own assessment of ITGC in FY 2020. We reviewed their work and noted additional considerations to be included in the remediation plan. We recommend that Management consider performing periodic ITGC assessments and implementing monitoring controls to address IT issues without delay. The following issues were mentioned as critical:

- Access to ERP systems was not properly resolved. “super access” users were identified;
- Segregation of duties was not designed at both the organizational and operational level.

UNIDO’s current approach creates a significant threat to system integrity and data consistency, which, in turn, could result in unauthorized actions or errors. We recommend that Management follow the remediation plan and develop additional control procedures as part of ongoing improvements.

Management response

PARTIALLY AGREE. UNIDO understands the risks of total reduction of Super User Access, however further segregation of duties under current resourcing outweighs the risks outlined by the External Auditor.

Key audit observations

3. Revenue and receivables: Assessed Contributions (AC)

Unspent contributions that are not renounced by Member States shall be refunded, as required by 4.2 (b) and (c) FR. As a result, some UNIDO expenses stay uncovered e.g., ASHL.

In substance, UNIDO's policy of paying refunds leads to the accumulation of deficits that need to be covered by Member States in future periods. If any Member State were to exit UNIDO, the accumulated deficits would have to be covered by the remaining Member States. In addition, the refunds paid to Member States mislead users of the financial statements regarding the amount of contributions that are actually available. Under the current approach, nearly 90 per cent of the ACs is collected and spent, while the outstanding 10 per cent is refunded, unless formally renounced by the Member States. These refunds lead to late payments and negatively influence the ability of UNIDO to use its regular budget effectively.

4. Revenue and receivables: Voluntary contributions (VC)

IPSAS 23 "Revenue from Non-Exchange Transactions" requires UNIDO to consider whether receivables and corresponding revenue shall be recognized, assuming that such stipulations are embedded in the agreements. To conclude whether an instalment shall be recognized, UNIDO shall conclude that the agreement with the donor is binding.

In reality, UNIDO has recognized receivables and corresponding deferred income for agreements that have not yet become binding. Overstatement of balance sheet line items (receivables and deferred income) may result in misleading the users of the financial statements.

5. Joint operations

VBOs are located in one building (VIC) and share common facilities and resources, including the Major Repair and Replacement Fund (MRRF). The MRRF is considered to be a joint operation with joint control shared between the Republic of Austria and the VBOs as the costs are split 50 per cent to 50 per cent.

All MRRF assets and liabilities are held in the name of the Republic of Austria and UNIDO (UNIDO on behalf of the VBOs). In fact, all five parties (four VBOs and the Republic of Austria) participate in the MRRF and exercise their control directly or indirectly.

Although the VBOs have an agreement on UNIDO's responsibilities regarding the MRRF, the VBOs treat the MRRF in their financial statements differently, because there are no explicit UN guidelines regarding the accounting of joint operations.

Recommendation

Status: pending resolution

 High

We recommend Management either to amend FR provisions 4.2 (b), (c) to allow UNIDO use late payments of ACs, or to increase the Working Capital Fund (WCF) so that UNIDO could release budget funds in the amount of ACs approved at the General Conference.

Management response
AGREE.

Recommendation

Status: resolved

 High

We propose that Management derecognize receivables and corresponding liabilities that are not supported by binding agreements with donors, because such approach is in line with IPSAS 23. UNIDO shall recognize only the instalment that is received and deemed binding for UNIDO and the donor. Instalments that are not yet binding shall not be recognized in the financial statements.

In addition, the FY 2019 financial statements were restated to reflect the change in the VC accounting approach.

Management response
AGREE.

Recommendation

Status: resolved

 High

We recommend that Management account a 14.516 per cent share in the MRRF rather than VBO's 50 per cent share. Since all VBO's have joint control, UNIDO reversed the other VBOs' shares in its FY 2020 financial statements and accounted only its own 14.516 per cent in the MRRF instead. In addition, the FY 2019 financial statements were restated to reflect the change in UNIDO's accounted share. To align the treatment of joint operations, we recommend that Management consider creating guidelines and issue a UNIDO policy.

Management response
AGREE.

ACRONYMS AND ABBREVIATIONS

ACRF Accounts Chamber of the Russian Federation	ITGC IT general controls
AMS SAP Asset Management System	ITS Information Technology Services Division
APT Accounts, Payments and Treasury Division	ITIL IT Infrastructure Library
ASHI After-service health insurance	JE Journal entries
BMS Building management services	JIU Joint Inspection Unit
BUD Budget Service Division	LVA Low value asset
CATS Cross-application timesheet system	LVAI Low value attractive items
CTBTO Comprehensive Nuclear-Test-Ban Treaty Organization	Management UNIDO's Management
DG Director General	MCIF Major Capital Investment Fund
DTA/DTI Department of Digitalization, Technology and Innovation	MLF Multilateral Fund for the Implementation of the Montreal Protocol
EA External Auditor	MS Member States
EB Executive Board	OAC Oversight Advisory Committee
EIO Office of Evaluation and Internal Oversight	QUA Quality Monitoring Division
EPR Directorate of External Relations and Policy Research	PBC Programme and Budget Committee
ERM Enterprise risk management	PFC/RFC Department of Regional and Field Coordination
ERP Enterprise resource planning	PMM Property management manual
FCR Full cost recovery system	PPE Property, plant and equipment
FMT Financial Management of Technical Cooperation Division	PPM Portfolio and project management
FO Field Offices	PRO Procurement Services Division
FR Financial Regulations and Rules of UNIDO	PSC Programme support costs
GBP Global Banking Project	QUA Quality Monitoring Division
GC General Conference	RB Regular budget
GEF Global Environment Facility	ROTC Resource optimization for technical cooperation
GES General Support Services Unit	RTLS Real Time Location System
GL General Ledger	SAP GUI SAP Graphical User Interface
HQ Headquarters	SAVCCA Special Account of Voluntary Contributions for Core Activities
HR Human Resources	SRM Supplier relationship management
HRM Department of Human Resources Management	SDG Sustainable Development Goal
HRS Human Resources Specialist	SPQ Office of Strategic Planning, Coordination and Quality Monitoring
IAEA International Atomic Energy Agency	TC Technical Cooperation
ICT Information and communications technology	TIS Technology and Information Systems Division
ICF Internal Control Framework	ToR Terms of Reference
IDB Industrial development board	UB Unutilized balances of appropriations
INTOSAI International Organization of Supreme Audit Institutions	UNOs United Nations organizations
IOD Internal Oversight Division	UNDP United Nations Development Programme
IOE Office of Internal Oversight and Ethics	UNGM United Nations Global Marketplace
IPSAS International Public Sector Accounting Standards	UNICC United Nations International Computing Centre
ISA International Standards on Auditing	UNIDO United Nations Industrial Development Organization
ISMS Information Security Management System	UNOV United Nations Office at Vienna
ISSAI International Standards for Supreme Audit Institutions	UNRC United Nations Resident Coordinator
ISID Inclusive and Sustainable Industrial Development	VBO(s) Vienna Based Organization(s)
ISO International Organization for Standardization	VIC Vienna International Centre
ITC Department of Information Technology and Communications	VIM Vendor invoice management system
	3E Economy, efficiency and effectiveness

CYBER SECURITY ACRONYMS

AD Active directory

BCP Business continuity plan

CAPTCHA-test Type of challenge–response test used in computing to determine if the user is human.

EDR Endpoint detection and response, also known as endpoint threat detection and response, is a cyber technology that continually monitors and responds to cyber threats

ICT Information computing technology

IDS/IPS Intrusion detection systems (IDS) analyse network traffic for signatures that match known cyberattacks. Intrusion prevention systems (IPS) also analyses packets but can also stop the packet from being delivered based on what kind of attacks it detects.

ISMS Information security management system

KPI Key performance indicator

Penetration testing An authorized simulated cyberattack performed on a computer system to evaluate the level of security; this is not to be confused with a vulnerability assessment

RPO Recovery point objective

RTO Recovery time objective

SIEM Security information and event management

SLA Service level agreement

SOC A security operations centre is a centralized unit that deals with security issues on an organizational and technical level. It comprises the three building blocks people, processes, and technology for managing and enhancing an organization's security posture.

SoD Segregation of duties

SSO Single sign on

VPN Virtual private network

CYBERSECURITY SECTION DEFINITIONS

ISO/IEC 27001:2013 standard: ISO/IEC 27001:2013 specifies the requirements for establishing, implementing, maintaining and continually improving an information security management system within the context of an organization

Access control: Means to ensure that access to assets is authorized and restricted based on business and security requirements.

Authentication: Provides assurance that a claimed characteristic of an entity is correct

Availability: Property of being accessible and usable on demand by an authorized entity

Confidentiality: Property that information is not made available or disclosed to unauthorized individuals, entities, or processes

Continual improvement: Recurring activity to enhance performance

Information security: Preservation of confidentiality, integrity and availability of information

Information security continuity: Processes and procedures for ensuring continued information security operations

Information security incident: An unwanted or unexpected information security events (or series of events) that has a significant probability of compromising business operations and threatening information security

Information security incident management: Set of processes for detecting, reporting, assessing, responding to, dealing with, and learning from information security incidents

Information system: Set of applications, services, information technology assets, or other information-handling components

Integrity: Property of accuracy and completeness

Nonconformity: Non-fulfilment of a requirement

Risk: Effect of uncertainty on objectives

Threat: Potential cause of an unwanted incident that can result in harm to a system or organization

Vulnerability: Weakness of an asset or control that can be exploited by one or more threats

ITGC SECTION DEFINITIONS

Development function: coding/programming new (in case of new functionality development) or existing (in case of error fixing) system functionality.

Implementation function: transfer new coded functionality into the live (production) system environment.

System maintenance function: administration of system configuration and access management (for SAP systems typically called as SAP BASIS function)

ISO/IEC 27001: standard published by International Organization for Standardization/ International Electrotechnical Commission. It is a generic, advisory document, representing a set of suggested controls to address information security risks, covering confidentiality, integrity and availability aspects.

Audit results

A. Financial audit observations

Introduction

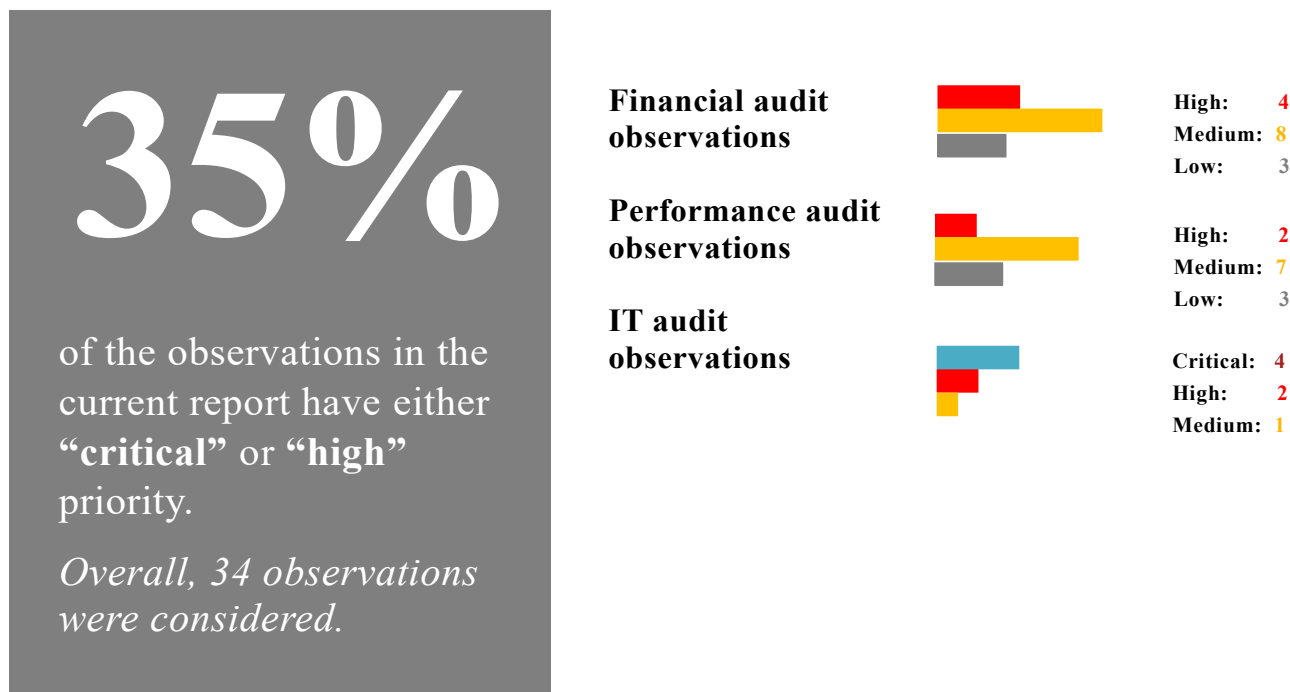
UNIDO is a specialized agency of the United Nations that aims to promote and accelerate inclusive and sustainable industrial development (ISID) in Member States. Industrial development is focused on poverty reduction, inclusive globalization and environmental sustainability. UNIDO’s mandate is fully recognized in SDG-9, which calls to “Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation”. UNIDO’s strategic priorities include creating shared prosperity, advancing economic competitiveness, safeguarding the environment, and strengthening knowledge and institutions.

UNIDO has a permanent presence in over 60 countries and comprises 170 Member States. The Organization is funded by assessed contributions (ACs) that constitute its regular budget, which is defined at the General Conference for a biennial period. The AC for the 2020-2021 biennium increased by about 1.5 per cent.

Projects performed by the Organization are funded by voluntary contributions that constitute nearly 57 per cent of total revenue. In addition, the Organization performs revenue producing activities that, in substance, mean UNIDO runs some operations that raise financing for building management services (BMS) and sales of statistical data, publications, etc.

In FY 2020, UNIDO had around 726 projects valued at a total of approximately USD 1.374 billion, which is 10 per cent more than in FY 2019. Overall, UNIDO has over USD 480 million for future activities, while project implementation was limited to USD 177.7 million in 2020. Therefore, UNIDO is provided with project funding for several years upfront.

Figure 3

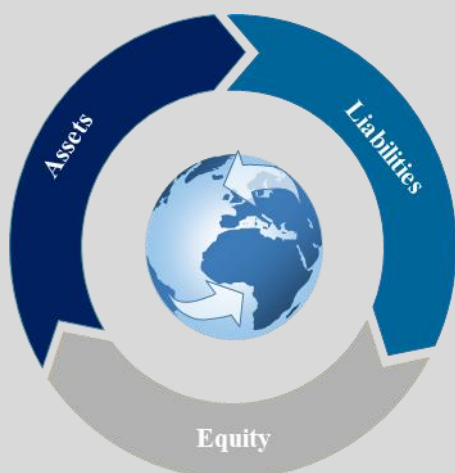


Financial Statements overview

Statement of financial position

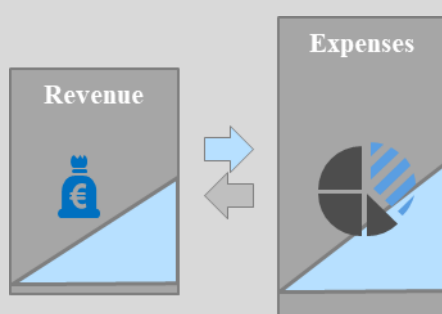
Overview of financial position as at 31.12.2020

Figure 4



Overview of financial performance for the year ended 31.12.2020

Figure 5



Cash and cash equivalents represent **59 per cent** of total assets, demonstrating a stable balance (-1.5 per cent versus prior year balance). Nearly **99 per cent** of cash and cash equivalents are held in banks with investment grade rating.



Accounts receivable from non-exchange transactions remains significant at around **30 per cent** of the total value of assets. Receivables from Member States represent less than 5 per cent of the receivables balance, while the majority relates to voluntary contributions.



Property, plant and equipment (PPE) slightly increased (around 4 per cent) in 2020 in comparison with 2019. About **54 per cent** of the PPE net book value relates to UNIDO's share in the Vienna International Center (VIC). Project assets represent more than **35 per cent** of the PPE book value (such assets are usually transferred to the beneficiary after project implementation).



Employee benefits balances represent primarily post-employment benefits, including after service health insurance, and constitute 34 per cent of total liabilities.



Accumulated surplus decreased by more than 17 per cent (€69 million.).

Assessed contributions represent **32 per cent** of total revenue. Collection rates and the ability to use the regular budget shall be considered.



Voluntary contributions represent around **57 per cent** of total revenue. VCs remain a key source of funds for UNIDO. A full cost recovery system was introduced in FY 2020. The new system aims to attract the necessary funding for TC, while the optimization of expenses remains a key area.



Expenses include around €232 million with an €14 million operating deficit. Nearly **50 per cent** of the expenses relate to personnel costs and benefits, so the effectiveness of staff and consultants may be a point for consideration.



Currency exchange losses are material, while the majority of differences relate to unrealized losses. Currency related risks shall be considered thoroughly taking into account around €41 million in losses in FY 2020.

Restatement of FY 2019 financial statements

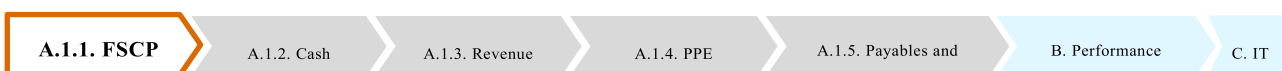
Restatement 1 (MRRF accounting):

UNIDO accounted a VBO's 50 per cent share in the Major Repair and Replacement Fund (MRRF). We noted that UNIDO shall recognize only that portion of the VBO's share in MRRF that UNIDO controls as required by IPSAS 37 "Joint Arrangements". As a result, €6.5 million of assets and corresponding liabilities was derecognized from UNIDO's Statement of Financial Position. Details are provided in [A.1.1.1](#).

Restatement 2 (Voluntary contributions):

In order to comply with IPSAS 23 "Revenue from Non-Exchange Transactions", only revenue and receivables arising from binding agreements (instalments) shall be recognized. UNIDO adjusted the FY 2019 financial statements to derecognize receivables and corresponding deferred liability for the instalments that were not yet binding. As a result, €189 million of accounts receivables and corresponding deferred revenue was derecognized. Details provided in [A.1.3.2](#).

In the report below, our observations are grouped by business process. General observations that relate to the preparation of financial statements and financial audit observations are presented in **Section A**, while performance audit observations are presented in **Section B**. **Sections C** and **D**, respectively, cover the IT audit and the External Auditor's observations from prior years.



Key observations: Financial statements general comments

Observation	Level of risk
A.1.1.1. Joint operations accounting: MRRF	High
A.1.1.2. Period-end closing procedures	Low
A.1.1.3. Manual journal entries processing	Medium
A.1.1.4. Adjustment processing	Medium
A.1.1.5. Manual modification of source data in SAP	High
A.1.1.6. Disclosure - segments	Low

A.1.1. Financial Statement Closure Process (FSCP) – General observations on financial statements

FSCP: A.1.1.1.

Joint operations: MRRF accounting

UNIDO accounted 50 per cent of share in MRRF that relates to VBOs

High

Recommendation

We recommend that Management account 14.516 per cent of VBO’s share in MRRF

UNIDO is among four UN agencies - the others are CTBTO, IAEA and UNOV- based in Vienna and collectively known as the Vienna-based organizations (VBOs). VBOs share the costs of certain services, including security, medical, commissary, printing and copying, building management, food service, language training and library facility. In addition, all four VBOs are located in the same building (VIC) and share the facilities.

The VBOs and the Republic of Austria each cover 50 per cent of the costs of financing major repairs. Therefore, a total of five parties (the four VBOs and the Republic of Austria) participate in the MRRF joint operation.

Building management services include both, maintenance and major repairs. To distinguish between activity that shall be expensed (maintenance) and activity that shall be capitalized (major repairs), the following streams were created:

- Building management services responsible for maintenance (BMS).
- Major Repair and Replacement Fund (MRRF).

The costs of common services are shared according to the cost-sharing ratios established in an agreement signed by the VBOs. UNIDO’s cost-sharing ratio for FY 2020 was set at 14.516 per cent of all assets, liabilities, income and expenses related to VBOs. The cost-sharing ratios are periodically revised.

BMS is considered to be an internal activity for UNIDO. In FY 2019, a restatement due to the derecognition of BMS was performed. The MRRF is a joint operation with joint control shared by the Republic of Austria and the VBOs. Costs are divided 50-50 between the VBOs and the Republic of Austria. All MRRF assets and liabilities are held in the name of the Republic of Austria and UNIDO on behalf of the VBOs.

According to IPSAS 37 “Joint Arrangements”, a joint operator is a party to a joint operation that has joint control. Based on our analysis, all five parties to the MRRF bear joint control. Although UNIDO is responsible for operations (including contracting), the joint control is based on the agreement signed by the parties and is authorized by the Joint Committee (where all five parties are present). When UNIDO executes the budget, it acts on behalf of all five parties. This approach does not limit the rights of other parties, since all key decisions are made by the Joint Committee. Each party shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation. Through FY 2020 UNIDO accounted a 50 per cent share in the MRRF.

A.1.1.1. Recommendation: **Status: Resolved**

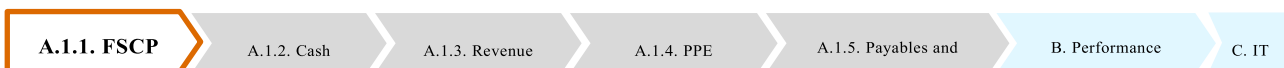
We recommend that Management account 14.516 per cent of VBO’s 50 per cent share in MRRF.

Since all VBO’s have joint control, UNIDO reversed other VBO’s portion in FY 2020 financial statements and accounted only its own 14.516 per cent of 50 per cent MRRF instead. In addition, FY 2019 was restated to reflect change in accounted share of UNIDO. Management implemented MRRF treatment change and corrected accounting accordingly.

To align joint operations treatment, discussion of guidance in UN system and issuing UNIDO’s policy is encouraged.

Management response


AGREE.



FSCP: A.1.1.2.

Period-end closing procedures

Lack of regular period closing procedures and poor controls over SAP period closure may lead to missed errors in financial statements

 **Low**

Recommendation

We recommend that Management develop closure procedures and an interim / year-end policy

During our evaluation of the FSCP process, we noted that no formal month/quarterly-end closing procedures have been established. Although certain period-end procedures are performed on a monthly/quarterly basis (e.g. review of bank clearing accounts or accounts payables), most period-end controls are performed either informally or irregularly. In particular, the following controls are not properly designed:

- Monitoring of suspense, clearing and technical accounts;
- Monitoring of accurate and complete data uploads from subledgers to GL;
- Monitoring of complete posting of all the necessary accruals and provisions, goods received and overdue open purchase orders;
- Monitoring of non-standard accounting entries.

A.1.1.2. Recommendation: **Status: Open**

We recommend that Management develop formal policy on period-end controls and establish formal closure procedures (including a procedure for period closure/re-opening in SAP).

In addition, performing monthly or quarterly closure procedures is encouraged.


Management response

PARTIALLY AGREE. UNIDO acknowledges the absence of formalized monthly closure procedures, and agrees to develop such; however, the critical year-end closure process is well described and controlled and as such, never led to omissions and errors in financial statements.

FSCP: A.1.1.3.

Processing of manual journal entries

Lack of control over manual journal entries may lead to unauthorized or fraudulent transactions

 **Medium**

Recommendation

We recommend that Management implements control procedures and restricted access for manual entries

Formal controls over the processing of manual journal entries (JEs) have not been developed. The accuracy and validity of manual JEs are partly covered by month-end APT's analytical procedures.

Monitoring procedures are generally high-level and not aimed at verifying manual JEs. In addition, we identified that access rights over the processing of manual JEs are not properly restricted in SAP, in particular:

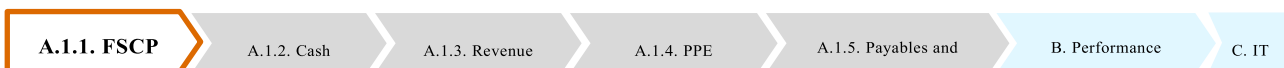
- Any individual with access to the General Ledger may create and post manual JEs;
- No restrictions on creating and approving manual JEs have been configured.

The manual processing of JEs increases the risk of inaccurate data input due to human error and may lead to data manipulation. The lack of control over manual JEs may lead to unauthorised or fraudulent transactions in the system and, as a result, misstatement in the financial statements.

Currently UNIDO limited user access to post manual JEs to the selected staff. Implementation of control procedures over transactions that posted manually is expected to be developed. We note, that current absence of errors/ fraudulent transactions does not secure UNIDO from possible occurrence of such situations in the future. Thus, it is generally accepted practice to minimize the number of manual JEs and implement additional controls over manual JEs posted. As a rule, such controls are performed within period-end closing procedures. In addition, we note that implementation of control does not necessarily require customization of ERP system, but aims to introduce at the first steps combination of manual and standard IT controls. Therefore, strengthening the control environment is encouraged.

A.1.1.3. Recommendation: **Status: Partially resolved**

We recommend that Management develop and implement control procedures, providing independent review and restricted access to the creation and posting of manual journal entries. As a business practice, such control procedures are embedded in the period-end closing procedures.



Management response

DISAGREE. User access to post manual JEs is already limited to the selected skilled staff, who are personally responsible and accountable for entries made, as part of their regular daily duties. Introduction of additional controls on approving manual JEs would lead to the need for special customization of standard SAP processes and workflows and may add inefficiencies and inflexibilities in accounting functions. In addition, such customizations of the standard SAP system needs financial resources and regular maintenance in the future. To date, UNIDO has not experienced any business distortion, or fraudulent transactions due to the existing set-up.

However, provided sufficient IT resources and IT priorities, UNIDO may explore possibility of automation of approval workflows for posting of manual JEs.

FSCP: A.1.1.4.
Accounting adjustments Manual and automatic adjustments shall be controlled to prevent and detect unauthorized or fraudulent transactions
Medium
Recommendation We recommend performing a formal review of adjustments, noting that some adjustments are material

During the review of accounting adjustments, we observed the following:

- Adjustments are approved either informally or via email. Evidence of approval may be not available.
- No workflow has been established for approving adjustments.
- Independent detective controls aimed at ensuring the accuracy and validity of adjustments either have not been implemented or performed ad hoc.

This approach is caused by the lack of established policy in the organization. The accuracy and validity of material adjustments are partly covered by APT’s analytical procedures. However, the procedures may be not precise enough. Lack of control over the processing of adjustments could lead to unauthorised or fraudulent transactions in the system and, as a result, misstatements in the financial statements.

According to the industry practice strong controls over adjustments processing would expect the following elements:

- Adjustments’ pre-approval, if needed (in line with the established guidelines);
- Verification of adjustments process (the control may be performed on selective basis).

As a rule, the control type (a) is performed either outside of SAP (e.g. using EDI solution) or using standard “park&post” functionality, depending on the adjustment type.

Control type (b) usually requires designing special SAP report to extract adjustments for the selected period according to predefined criteria. In our opinion the benefits of designing the report and performing detective control outweigh the costs associated with such report development. In addition, we note that current absence of errors/ fraudulent transactions does not secure UNIDO from possible occurrence of such situations in the future.

A.1.1.4. Recommendation:	Status: Open
We recommend that Management develop and implement formal guidelines on the processing of adjustments and consider developing additional controls to verify the accuracy and validity of the adjustments.	

Management response

DISAGREE. User access to post adjustments is already limited to the selected skilled staff, who are personally responsible and accountable for entries made, as part of their regular daily duties. Introduction of additional controls on approving adjustments would lead to a need for special customization of standard SAP processes and workflows and may add inefficiencies and inflexibilities in accounting functions. In addition, such customizations of the standard SAP system needs financial resources and regular maintenance in future. To date, UNIDO has not experienced any business distortion or fraudulent transactions due to the current set-up.

However, provided sufficient IT resources and IT priorities, UNIDO may explore possibility of automation of approval workflows for posting of manual JEs.

FSCP: A.1.1.5.

Manual SAP data source modification

Unauthorized modification of critical system data may result in breach data integrity and consistency

High

Recommendation

We recommend minimizing the number of data source changes and limiting number of users allowed to perform such change

We evaluated making direct changes in the SAP tables. Such changes mean modification of SAP data source (tables) that is performed by bypassing the established procedures and standard SAP workflow.

There are more than 90 user accounts, and a significant proportion of them belong to business (46 per cent) and third-party users (23 per cent). In accordance with the established procedure, direct SAP tables changes are allowed and shall be performed based on tickets preapproved by authorised persons (data owners), that is not followed on practice.

In addition, we observed that no formal detective control has been established to ensure that direct table changes are in line with the approved request. Informal verification may be performed by change initiators, but the results of such reviews are not documented.

We identified more than 1,000 direct changes to SAP tables in FY 2020. We noted that the changes were mostly performed in procurement process (Figure 6).

We also noted that the changes were primarily posted by business users and ITS team (Figure 7), including: unauthorised modification of system functionality and critical system data, breach of system integrity, data consistency and concealment of inappropriate actions.

Figure 6. Direct changes per business processes

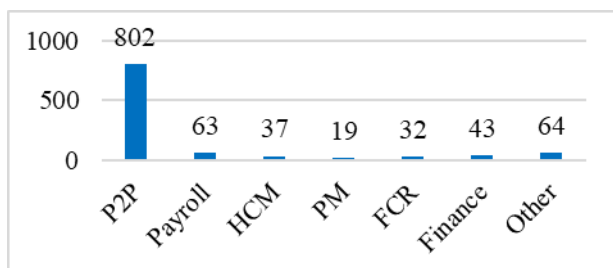
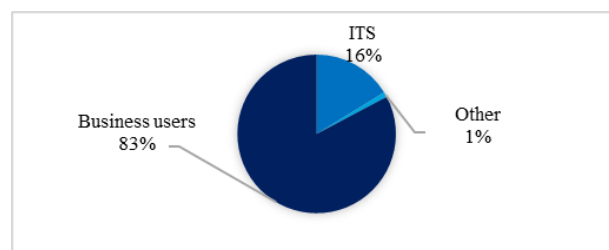


Figure 7. Direct changes per user groups



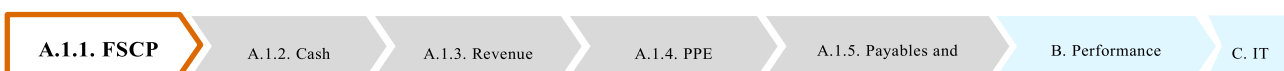
A.1.1.5. Recommendation: Status: Open

We recommend the following:

1. Reconsider the current approach to the processing of direct changes and minimise the number of such changes.
2. Perform an inventory of user accounts with authorisations to process direct changes in SAP tables in order to identify whether redundant and/or superfluous authorisations have been granted.
3. Implement regular monitoring procedures over the validity and relevance of direct changes made in SAP tables.

Management response


AGREE. Users shall have no access to process direct changes in critical SAP tables, unless there is a standard business need (e.g. certain master data upload, incl. salary scales, or exchange rates, etc.) and/or requirement by system set-up, or non-financial reporting. IT has already removed access rights from non-relevant users.



FSCP: A.1.1.6.

Disclosure of segments

No geographical areas are included in current segment reporting, while some stakeholder decisions are driven by such information

 **Low**

Recommendation

We recommend presenting additional disclosures of geographical segments in order to provide stakeholders with greater insight on UNIDO’s operations.

Current segment reporting disclosure procedures provide insight on how resources are allocated across regular budget, technical cooperation and other activities. At the same time, stakeholders are interested in UNIDO’s regional operations.

UNIDO carries out its mandate at the country, regional and international levels, in line with the varying needs of individual Member States. It supports greater levels of cooperation between regions as a vital component in efforts to boost investment, growth and prosperity, and to tackle a wide range of cross-border challenges.

Taking this into account, segment reporting by regions may better disclose the rationale for key decisions and resources allocation (IPSAS 18.9). In addition, we noted that UNIDO’s Annual Report highlights the growing importance of partnerships with governments, international organizations and the private sector in achieving its objectives and deliver ISID.

A.1.1.6. Recommendation: **Status: Open**

We recommend that additional disclosures regarding geographical segments be presented in order to provide stakeholders with greater insight on UNIDO’s operations.

Management response

PARTIALLY AGREE. UNIDO, based on Management’s and stakeholder’s priorities and needs, UNIDO may consider to set up and maintain a new reporting dimension (i.e. country) across all business processes and units and transactions to enable financial reporting based on geographical areas, or any other dimensions as deemed necessary.

A.1.1. FSCP

A.1.2. Cash

A.1.3. Revenue

A.1.4. PPE


A.1.5. Payables and
expensesB. Performance
Audit

C. IT

Key observations: Financial audit

Observation	Level of risk
A.1.2.1. Cash management	Medium
A.1.3.1. Assessed contributions: revenue and receivables	High
A.1.3.2. Voluntary contributions: revenue and receivables	High
A.1.3.3. Accounts receivables: allowance for doubtful accounts	Low
A.1.4.1. PPE: Completeness of capitalized assets	Medium
A.1.4.2. PPE: TC equipment expensed	Medium
A.1.4.3. PPE: Impairment analysis	Medium
A.1.4.4. PPE: Physical observation	Medium
A.1.5.1. Accounts payables: Accruals	Medium

A.1.2. Cash receipts, cash disbursements

Cash: A.1.2.1.	<p>The cash receipts and cash disbursement process include treatment of actual cash, term deposits and field offices cash and cash equivalents. Short-term deposits are kept in euros and US dollars (in millions of euros):</p> <p><i>Table 1. Deposits break out</i></p> <table border="1"> <tbody> <tr> <td>DEPOSITS IN EURO</td> <td>125.9</td> <td>37 per cent</td> </tr> <tr> <td>DEPOSITS IN US DOLLARS</td> <td>218.6</td> <td>63 per cent</td> </tr> <tr> <td>TOTAL</td> <td>344.5</td> <td>100 per cent</td> </tr> </tbody> </table> <p>Taking into account the significant amounts of accumulated cash (78.5 per cent of total cash and cash equivalents), investment strategy would seem to be an important topic for UNIDO.</p> <p>The investments in short-term deposits demonstrate a rather low yield with an annual average rate of 0.03 per cent interest earned on euro holdings. At the same time, around 60 per cent of euro deposits are held at 0 per cent interest. UNIDO has sought to manage its relationships with banks to avoid negative interest rates.</p>	DEPOSITS IN EURO	125.9	37 per cent	DEPOSITS IN US DOLLARS	218.6	63 per cent	TOTAL	344.5	100 per cent
DEPOSITS IN EURO		125.9	37 per cent							
DEPOSITS IN US DOLLARS		218.6	63 per cent							
TOTAL		344.5	100 per cent							
Cash Management Significant cash balances create additional pressure on UNIDO to hold funds at zero or positive interest rates										
 Medium										
Recommendation We recommend that Management develop an investment strategy for its held resources										

interest rates. Although UNIDO has been able to keep low or zero interest rates for its euro holdings, it is likely to be more challenging to do so in future periods.

Another important topic is foreign exchange rates on its dollar holdings. As of December 31, 2020, UNIDO reported around €18.7 million in unrealized foreign exchange losses. Although the losses were not realized, it is important to note the negative currency trends and subsequent adverse euro and dollar parity.

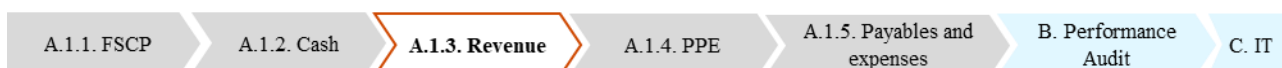
A.1.2.1. Recommendation:

Status: Ongoing

We recognize the Treasury's efforts to establish business relations with banks in order to avoid potential negative interest rates for holdings in FY 2020. We recommend that Management continue regularly reviewing investment portfolio to minimize impact of negative interest rates.

Management response

AGREE.



A.1.3. Accounts receivable & Revenue

AR&Revenue: A.1.3.1.

Assessed contributions: revenue and receivables
 Nearly 90 per cent of ACs is collected and spent, while the outstanding 10 per cent is refunded if not renounced by Member States

High

Recommendation
 We recommend Management to amend FR provisions 4.2 (b), (c) to allow UNIDO to retain unutilized balances

AC receivables consist of assessed contributions uncollected as of December 31, 2020 (net of adjustments related to doubtful accounts). We note that FY 2020 is the first year of the biennial budget, as collections are lower than in the second year (37 per cent increase in FY 2020). However, around €3 million went uncollected in the previous biennial period 2018-2019.

These receivable balances collected after a biennial period has ended are called “late payments”. They represent UNIDO’s liability to make a refund to Member States (in the event that Member States do not renounce the refund balance).

Although UNIDO negotiates with Member States to encourage them to renounce these refunds, the results vary. The amounts that UNIDO agrees to keep deviates around €1-2 million, while uncollected balances from Member States may be much higher, as shown below (in millions of euro):

Table 2. AC collections

Narrative	FY 2020	FY 2019	FY 2018
Assessed contributions (revenue)	69.5	68.4	68.3
AC receivables	10.5	8.2	7
Uncollected balance	9.4	2.9	7.2
Collected “late payments”	0.8	8	3.7
Renounced balances	No data yet	1.1	1.6

We noted that around 10 per cent of ACs approved by the General Conference stay uncollected as at year end. In such circumstances, UNIDO has to be prudent and limit its expenditures. This is done by limiting the distribution of budget funds to allotment holders.

According to FR, UNIDO is required to use collected ACs in a given biennial period or within the 12 following months. UNIDO may not use the regular budget approved by the GC if not all ACs are collected on time.

In addition, we note that the refund process is time consuming and costly. UNIDO’s receipt of late payments triggers negotiations with more than 150 Member States about the necessity of making refunds. Such activity is inefficient, because UNIDO is required to negotiate over funds that were already approved at the General Conference by all Member States.

However, UNIDO may release the total regular budget. In this scenario, UNIDO would not have an unused balance for the period, but a cash gap, with the uncollected contributions to be covered by additional financing, for example, debt financing. Late payers would bear additional financing costs, while Member States that paid their assessed contributions on time would not.

Taking into account, that accumulated deficits increasing going forward, Member States shall note that ineffective use of regular budget shall be considered.

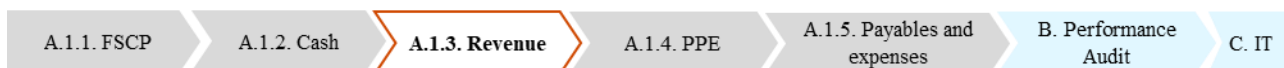
A.1.3.1. Recommendation: Status: Open

We recommend that Management either amend FR provisions 4.2 (b), (c) to allow UNIDO use late payments of assessed contributions, or increase Working Capital Fund (WCF), so UNIDO could release budget in the amount of AC approved at General Conference.

The refunds paid to Member States mislead the users of the financial statements regarding the amount of contributions that are actually available. Under the current approach, nearly 90 per cent of AC is collected and spent, while the outstanding 10 per cent is refunded if not renounced by Member States. These refunds encourage late payments and negatively influence the ability of UNIDO to use its regular budget effectively, because UNIDO is limited by the amount of funds that have been collected.

Management response

AGREE.



AR&Revenue: A.1.3.2.

Voluntary contributions: revenue and receivables

Only revenues and receivables arising from binding agreements shall be recognized; FY 2019 financials were restated

⚠ High

Recommendation

We recommend that UNIDO recognize receivables and corresponding revenue / deferred revenue only for binding instalments (contracts)

We considered the accounting treatment of voluntary contributions. In accordance with IPSAS to determine whether an instalment from a donor agreement shall be recognized, UNIDO must conclude that the agreement with the donor is binding.

In order to comply with IPSAS, only revenues and receivables arising from binding agreements shall be recognized. For this reason, UNIDO performed a restatement of the FY 2019 financial statements. UNIDO derecognized receivables and the corresponding deferred liability for instalments that are not yet binding, because UNIDO has not yet obtained an enforceable right to claim to such instalment.

The recorded restatement in Note 23 of UNIDO’s financial statements for FY 2020 impacted only the statement of financial position to net-off receivables and deferred revenue (which is a liability in substance). For FY 2020 respective balances were corrected for €189 million, while FY 2019 restated for the following:

Table 3. VC adjustment

Narrative	FY 2019
Asset’s adjustment	(179)
Liabilities’ adjustment	(179)

A.1.3.2. Recommendation: **Status: Resolved**

We recommend that Management take the following approach to comply with IPSAS 23: UNIDO shall recognize only those instalments that are received and deemed binding for UNIDO and the donor. Instalments that are not yet binding shall not be recognized in the financial statements.

Management response

AGREE.

AR&Revenue: A.1.3.3.

Accounts receivables: allowance for doubtful accounts

Allowance is recognized only for assessed contributions, while other receivables may also be considered

⚠ Low

Recommendation

We recommend that UNIDO consider allowance receivables other than AC receivables

UNIDO recognizes allowance for estimated irrecoverable amounts when there is objective evidence that the asset is impaired, in which case the impairment losses are recognized. In fact, UNIDO recognizes allowance only for assessed contributions receivables, while there are cases of advances issued more than 6 years ago (e.g. advances to vendors, included in other assets).

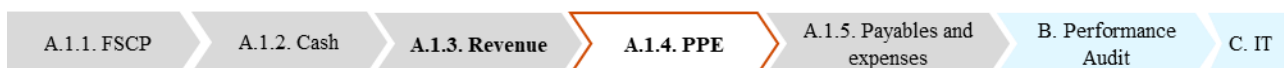
A.1.3.3. Recommendation: **Status: Open**

We recommend that UNIDO consider conducting an ageing analysis of accounts receivable (by the date of occurrence), since the Organization has examples of financial instruments recognized more than five years ago, so the balance may be not recoverable.

The new IPSAS 41 “Financial Instruments” effective from January 1, 2022 will require UNIDO to reconsider its approach to allowance for doubtful accounts. The new standard will require organizations to recognize impairment loss for receivables even before the occurrence of any credit event. Based on these requirements we recommend considering the new requirements and plan transition accordingly.

Management response

AGREE. UNIDO will review other accounts receivables, including advances to vendors and based on historical experience and recoverability assessment and will consider recognizing allowance in line with IPSAS 41.



A.1.4. Property, plant and equipment

Property, plant and equipment comprise the following assets (in millions of euro):

Table 4. PPE break out

	31.12.20	31.12.19	CHANGE
OFFICE BUILDING (VIC)	32.5	32.6	0 per cent
OTHER PPE	28	30.9	-9 per cent
TOTAL	60.5	63.5	-5 per cent

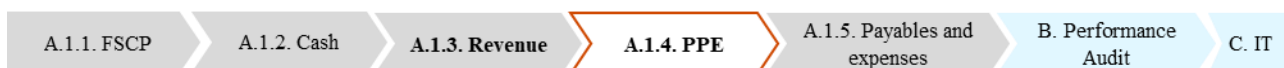
54 per cent of property, plant and equipment relate to the office building. The remainder of PPE comprises mostly machinery and equipment for technical cooperation (€22 million out of 28 million).

PPE: A.1.4.1.	<p>The PPE’s completeness may be breached in the following cases:</p> <ul style="list-style-type: none"> • The asset is not recorded in the system on time (cut-off) • A service that shall be capitalized is expensed. <p>Once purchased PPE is accepted by UNIDO, a confirmation shall be issued. The confirmation means the PPE has been accepted and triggers the depreciation of the purchased asset.</p> <p>We noted instances where late confirmations created in the system lead to omitting PPE from statement of financial position as at reporting date and understatement of accrued depreciation.</p> <p>In addition, we noted that some installation and other direct costs to be included in the PPE value may be purchased via separate purchase orders. In the system there is no automatic approach to identify such expenses. As a result, UNIDO may omit capitalization of direct expenses from the one side, and initiate depreciation before PPE is ready for operation from another. Currently, UNIDO performs manual monitoring of such scenarios and adjusts identified material cases.</p>
Completeness of capitalized assets	
PPE additions recorded may be incomplete due to late confirmation or lack of the link to service that needs to be capitalized	
Medium	
Recommendation	
We recommend that UNIDO add asset ID to catch services for capitalization automatically and implement additional controls to mitigate risk of cut-offs	

A.1.4.1. Recommendation:	Status: Open
We recommend that UNIDO develop automatic linkages between services and purchased assets to identify services to be capitalized automatically. In addition, monitoring of the cut-off and implementation of controls over PPE additions is encouraged.	


Management response

AGREE. UNIDO will consider implementation of SAP-based controls capturing capitalizable expenses, provided sufficient IT resources and IT priorities, and will remind responsible personnel to adhere to their duties described in the Procurement Manual, to undertake timely confirmations of goods and services received through the SRM portal, triggering automatic assets capitalization.



PPE: A.1.4.2.

TC equipment expensed
TC equipment is operated by contractors. UNIDO is responsible to the donor for the physical condition of the assets

 **Medium**

Recommendation
We recommend that UNIDO negotiate with donors to transfer title to the beneficiary when the equipment is actually transferred

PPE purchased for technical cooperation by substance is equipment purchased for TC projects. UNIDO has title for such assets and keep it on Statement of financial position until project implementation. After project is completed, mostly equipment is transferred to beneficiary.

In fact, TC equipment is operated by contractors, while UNIDO is responsible to the donor for physical condition of the assets until transfer of title that usually occurs after project is implemented. Burden expenses associated with asset maintenance including insurance not necessarily part of project budget.

A.1.4.2. Recommendation:

Status: Open

We recommend that UNIDO negotiate with donors to transfer title to the beneficiary when the equipment is transferred to the contractor or beneficiary. While UNIDO could be responsible for monitoring physical conditions of the asset under an agreement with the donor, the burden of maintenance shall be transferred to beneficiary.


This new approach would lead to a reduction of the deficit because revenue and expenses would be mostly matched in the statement of financial performance. The current approach requires UNIDO to recognize revenue when UNIDO is granted the funds for a PPE purchase. In further reporting periods, after the project is completed, UNIDO transfers title for equipment to the beneficiary and recognizes deficit (as income recognized when PPE was purchased).

Management response

AGREE with the principle of full transfer of Title when UNIDO has no control over the assets.

PPE: A.1.4.3.

Impairment analysis
UNIDO performs physical observations and decides if an impairment loss exists

 **Medium**

Recommendation
We recommend developing impairment assessment model to include additional considerations aside from physical obsolescence

In accordance with IPSAS, an organization shall determine whether a non-cash generating asset is impaired and ensure that the impairment loss is recognized. Overall, UNIDO includes VIC (office building), other administrative assets and assets purchased for technical cooperation under PPE. Currently, UNIDO performs an annual physical observation to identify indicators of impairment. However, the assets purchased for technical cooperation are spread all over the world and the impairment assessment shall not be limited by physical observation.

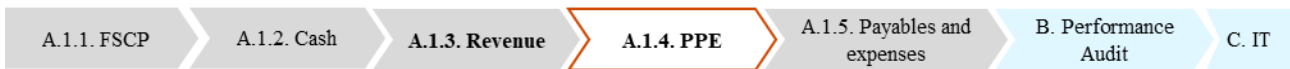
A.1.4.3. Recommendation:


Status: Open

We recommend that UNIDO develop an impairment assessment model to include additional considerations aside from physical obsolescence. Taking into account the wide geographic spread of UNIDO's PPE, we encourage Management to analyse changes in the technology, legal or government policy environment, the existence of an active market for used PPE and the economic situation in key PPE locations.

Management response

AGREE. UNIDO will consider implementing a suitable impairment assessment model, on a cost-benefit basis, in order to assess impairment.



PPE: A.1.4.4.
PPE: Physical observation
UNIDO performs physical observation “book to floor” and relies on an RTLS
 Medium
Recommendation
We recommend that UNIDO assess PPE for completeness, including the “floor to book” test and analysis of the RTLS

UNIDO take stock of PPE annually in accordance with the policy. However, organization does not have a document that establishes who and when performs the stock take. In these circumstances the stock take may be performed by an accountable person responsible for assets to be counted.

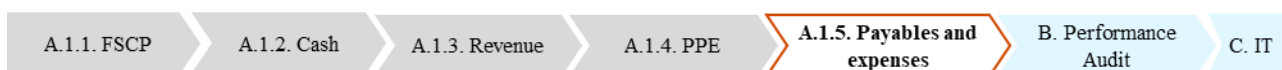
In addition, the count is performed only as book to floor. This means that the organization counts assets that are recorded on the ledger, so the stock take is limited to assets that are recorded “on the books” to validate their existence “on the floor”. This approach does not allow to confirm completeness of counted assets as there may be some unrecorded assets for which no confirmation has been issued but which are actually held by UNIDO.

UNIDO uses RTLS (Real-time Locating System) to track PPE. This means that there is an electronic fob attached to the asset. Although system tracks fob existence in real time, there are no procedures to corroborate RTLS accuracy.


A.1.4.4. Recommendation:	Status: Open
We recommend that UNIDO develop stock take instructions that explicitly designate employees to be responsible for the count. In addition, we encourage UNIDO to assess the completeness and accuracy of the count after it is performed. As part of this process, the reasonableness and accuracy of the RTLS shall be considered.	

Management response

AGREE.



A.1.5. Payables and expenses

Payables&expenses: A.1.5.1.
Accounts payables Accruals are performed manually and as a result may be omitted
 Medium
Recommendation We recommend that UNIDO consider setting up standard SAP functionality and running accruals automatically to the extent possible

UNIDO manually performs search for unrecorded liabilities as at the year-end. There are two types of expenses for which the accrual may be created:

1. Recurring expenses such as utilities (electricity, heating, etc.), rental and other expenses with regular payments on recurring basis.

In order to ensure the completeness and accuracy of accruals created in respect to this type of expenses, we recommend using the standard SAP functionality for automatic accruals processing (so called “accrual engine”). Based on best practice monthly or quarterly frequency for automatic accruals is encouraged.

2. Ad-hoc expenses that are usually incurred by UNIDO within TC project implementation.

Search for unrecorded liabilities for this type of expenses could be provided by analysis of delivery date. This date is indicated in the approved PO, so technically it is possible to identify expenses that shall be delivered by reporting date, but no confirmation was created and approved in SRM yet. Such expenses may be automatically identified and considered for accrual.

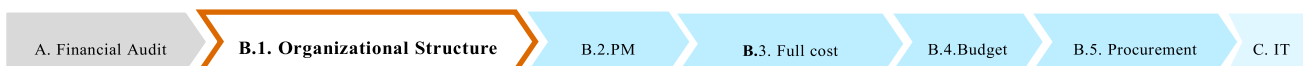
At the same time such approach possible in case the delivery date reflects real delivery terms of contract with vendor. Within the assessment of procurement process, we noticed that there are still some instances of incorrect delivery date in PO. The respective recommendation was given in the previous External Auditors’ Report. We acknowledge that UNIDO provides continuous advice and guidance on this recommendation, including in training sessions for those in charge for creation and approval of shopping carts and purchase orders. We believe that UNIDO will continue to conduct similar activities on an ongoing basis, and ROTC implementation will minimize the number of detected errors.

A.1.5.1. Recommendation:	Status: Open
We recommend that Management consider the following:	
<ul style="list-style-type: none"> • use standard SAP functionality for automatic accruals processing (so called “accrual engine”) to increase efficiency and reliability of recurring accruals processing. • continue to conduct activities aimed at filling in purchase orders correctly, including proper indication of delivery date, and perform search for unrecorded liabilities by analysis of delivery date in purchase orders 	

Management response

AGREE. UNIDO will explore SAP functionality for automatic accruals processing for relevant recurring services. In addition, provided sufficient resources are available, UNIDO will request its IT and Procurement Divisions to create a report from the SRM system, listing open POs along with delivery dates, to consider for manual accrual of ad-hoc expenses, taking into account accuracy of the information recorded in the system, as well as reliability of the expected delivery date versus real delivery date and accuracy of this information maintained in SRM.

Also, UNIDO will remind responsible personnel to adhere to their duties described in the Procurement Manual, to undertake timely confirmations of goods and services received through the SRM portal which triggers accruals automatically.



B. Performance audit

Key observations: Performance audit

Observation	Level of risk
B.1.1. Org. Structure: Field offices functionality	High
B.1.2. Org. Structure: UNIDO Secretariat Structure 2020	Low
B.2.1. Project management: Overall process	Medium
B.2.2.1. Project management: “One-Size-Fits-All” project approach	Medium
B.2.2.2. Project management: Quality	High
B.3.1. FCR: further FCR improvement	Medium
B.4.1. Budget: Budget planning	Medium
B.4.2. Budget: Budget transfers	Low
B.4.3. Budget: Distribution RB between TC projects	Low
B.5 Procurement: Overall approach	Medium
B.5.1. Procurement: Shopping cart administration	Medium
B.5.2. Procurement: Lack of procurement plan	Medium

B.1. Organizational structure

Introduction

UNIDO has a geographically wide, complex organizational structure that primarily consists of:

- Headquarters (organizational entities located in Vienna);
- Various offices located outside Vienna, which are divided into the following types:
 - Field offices: 39 country offices, 5 regional hubs and 4 regional offices.
 - Investment and Technology Promotion Offices (ITPO): 9 offices;
 - Liaison Offices: 3 offices.
 - Other offices: Focal Points, Project offices, International Centre for Inclusive and Sustainable Industrial Development, Centre for South-South Industrial Cooperation.

In 2020 UNIDO made some changes to its organizational structure. The most significant was dividing the former Directorate of Programme Development and Technical Cooperation (PTC) into three individual directorates:

- The Directorate of Digitalization, Technology and Agri-Business;
- The Directorate of Environment and Energy;
- The Directorate of Programmes, Partnerships and Field Coordination.

Despite the restructuring, most TC departments did not change their name or functionality as they were segregated into independent directorates in order to enhance decision-making.

In our assessment of the efficiency of the organizational structure, we considered the core functions of the organizational entities located in Vienna. We also identified the roles, functions and types of activities performed by field offices, the ITPO and other offices.

A. Financial Audit

B.1. Organizational Structure

B.2.PM

B.3. Full cost

B.4.Budget

B.5. Procurement

C. IT

Org. structure: B.1.1.**Field offices' location and functionality**

TC activities and the UNDS reform are not reflected in UNIDO's organizational structure

 **High**

Recommendation

We recommend that UNIDO assesses the functionality of the field offices and consider locations with reference to the level of activity in a given country or region

In our analysis of the regional organizational structure, we considered types of Field offices located in the regions and the functions of the staff in these offices, including their involvement in TC projects.

To assess location, we calculated the average number of projects per Field office and per employee in each region (the results are shown in Table 5 below). Based on the assessment performed, we can conclude the following:

- Arab States has the highest average number of projects per office and per staff member.
- North America, Latin America and the Caribbean has the lowest results.

Table 5. Average number of projects per office and per staff

Region	Expenses (projects) \$ millions	Projects FY 2020	Field Offices	Staff members	Avg. number of projects per office	Avg. number of projects per staff member
Africa	22.7	152	19	64	8	2
Arab States	15.7	86	7	23	12	4
Asia and the Pacific	46.4	124	12	46	10	3
Europe and Central Asia	2.4	23	3	6	8	4
North America, Latin America and the Caribbean	6.8	40	7	23	6	2
Total	94	425	48	162	7	2

Average number of projects per staff member is similar for all field offices. However, the capacity of field offices should be considered. The statistics above may not reflect the real office activity at a given office. As such, we identified 17 countries with offices where between one and five projects were delivered, and there is one country with office where were no projects at all. At the same time, we noted some countries without offices had seven and more projects implemented in FY 2020:

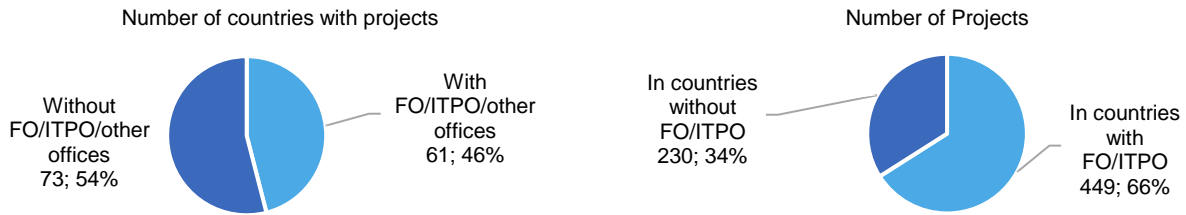
Table 6. Countries without offices with seven and more projects

Nº	Region	Location	Number of projects
1	Africa	Gambia	7
2	Africa	Zambia	7
3	Africa	Somalia	7
4	Arab States	Iraq	10
5	Asia and the Pacific	Myanmar	8
6	Europe and Central Asia	Georgia	7
7	North America, Latin America and the Caribbean	Peru	8
8	North America, Latin America and the Caribbean	Cuba	7

UNIDO does not have a field office in around 54 per cent of the 134 countries where it delivered projects in FY 2020. Moreover, the number of projects in countries that have no UNIDO offices is significant (about 34 per cent, or 247 projects):



Figure 8. Quantity data about projects and countries with projects implementation



There are no explicit criteria used when selecting locations for UNIDO’s offices. Primarily it is embedded in the history of the Organization and the decisions taken by its Member States including on budgetary issues. This constitutes an additional element, beyond TC considerations and therefore does not fully correspond to the current layout of projects.

At the same time, due to the UNRC reform field offices’ role and involvement in delivery of technical assistance is increasing. We also take into account the following considerations:

- UN reform pursues a decentralized approach;
- Demand for UNIDO’s technical services increases (as indicated in the Independent Thematic Evaluation of UNIDO Field Network);
- Impact of COVID-19. During the interview we noticed that due to COVID-19 UNIDO’s projects could benefit from empowerment of local representatives, as it could be impossible for a project manager to travel from Vienna to local sites.

Although possible involvement of FOs in TC activities is not currently the main focus of their work, considering factors given above UNIDO may develop a more effective approach with a greater field presence in a strong connection with TC activities, including PCPs.

B.1.1. Recommendation:

Status: Open

We recommend that Management gradually increase the role of FOs in delivery of technical assistance and involve FOs not only on the identification stage for contacting with local officials and local donor community, but also on the implementation stage, including project management and final project delivery.

In order to enhance FOs involvement in technical cooperation activities and be in line with UNRC reform we recommend the following:

- Perform analysis and, if necessary, reconsider FOs location in accordance with the considerations given above and inter alia including political and budgetary issues;
- Assess technical skills of FOs employees and consider trainings, if necessary;
- Consider implementation of individual and FO KPIs in accordance with SMART model in order to ensure monitoring of the functions indicated in ToR.

Management response

PARTIALLY AGREE as the recommendation has been /is already being implemented

Promulgated on 22 September 2020, DGB/2020/09 introduced the latest Terms of Reference (ToR) of UNIDO’s Field Offices https://intranet.unido.org/intranet/images/e/e0/DGB202009_TOR_UNIDO_Field_Offices.pdf. These ToR spell out the multiple functions and responsibilities of Field Offices including, among others, representation in countries/regions of coverage, engagement with field stakeholders, identifying national development and donor funding priorities, involvement, under specific conditions, in TC projects/programmes, coordination and reporting on UNIDO activities, provision of inputs for regional strategies and policies including to UNIDO’s contributions to the United Nations development system at the country level. It is worth mentioning that the ToR were prepared bearing in mind, among others, the implications of the UNDS reform and they foresee, under specific conditions, the possible involvement of Field Offices in TC activities. TC activities are, however, not the main focus of FOs work. Moreover, in light of the level of staffing of Field Offices it seems imperative to strike a balance between the existing resources and tasks of and expectations in terms of TC activities from the Field Network.


The Independent Thematic Evaluation of UNIDO Field Network <https://www.unido.org/sites/default/files/files/2019-12/Independent%20Evaluation%20UNIDO%20Field%20Network.pdf> conducted in 2019 responded to great extent to the above recommendation B.1.1.



Moreover, IDB .47/CRP.10 of June 2019 on *UNIDO and the United Nations development system reform* presented a review of the status of the UNDS reform and introduced UNIDO’s roadmap to maximize its benefits. UNIDO’s roadmap constitutes a direct response to recommendation B1.1. as it placed particular emphasis, among others, on strengthening the capacity and empowering the Field Network through tailor-made training sessions and to enhance the role of UNIDO’s Representatives in the identification, development, implementation and reporting of PCPs and CPs. Both the Independent Thematic Evaluation and UNIDO’s roadmap constitute cornerstones of the new ToR of Field Offices promulgated in 2020.

Supplementing the performed analysis by considering UNIDO project offices, which are established for the life span of UNIDO TC interventions in a given country, might shed further light on the presence in the field of UNIDO.

Finally, it is worth recalling that discussions and decisions related to the current location of UNIDO’s Field Offices would call for political and budgetary support and decisions from UNIDO’s Member States.

Org. structure: B.1.2.
UNIDO Secretariat Structure 2020 The functions of the organizational entities are described only at a very high level
 Low
Recommendation We recommend updating the structure of the UNIDO Secretariat

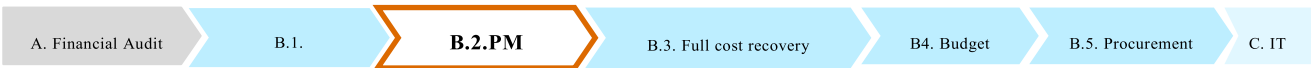
We have analysed UNIDO’s internal documents that regulate the main functions of each organizational entity (unit), and noted the following:

- In 2020, UNIDO established a new UNIDO Secretariat Structure 2020 containing a high-level description of the core functions of each organizational entity.
- We noted that some functions indicated in the UNIDO Secretariat Structure 2020 are not performed in practice. For example, one of the functions of ODG/SPQ/QUA is to monitor the implementation of UNIDO’s portfolio and to periodically report on them.
- In addition, more specific and detailed terms of reference/charters have also been developed for some organizational entities, but not for everyone. As a result, it may lead to the unclear division of responsibilities, the duplication of functions, and to overall organizational inefficiency.

B.1.2. Recommendation:	Status: Open
We recommend updating the UNIDO Secretariat Structure 2020 in close cooperation with all organizational entities in order to indicate the actual functions and develop more specific and detailed terms of reference for each organizational entity if deemed necessary	

Management response

AGREE. Whenever an organizational re-structuring is undertaken, the usual practice is to revise the terms of references of the affected organizational units, as required.



B.2. Project management (PM)

Introduction

The assessment of project management at UNIDO included several dimensions, including the conceptual understanding of what a project is and why project management is important, as well as the key processes, regulations and other organizational issues.

According to the UNIDO framework, the strategic priority of inclusive and sustainable industrial development (ISID) is achieved through the execution of UNIDO’s core functions. These functions include technical cooperation (TC), policy analysis and advice, norms and standards, and convening and partnerships.

Technical cooperation is the most project-oriented function at UNIDO, as technical cooperation activities are usually delivered through projects and programmes. Globally, UNIDO conducts technical cooperation interventions that are aimed at promoting industrial development for poverty reduction, inclusive globalization and environmental sustainability.

According to UNIDO’s Open Data Platform, UNIDO ran a portfolio of more than 700 projects in 2020 with a total value of more than \$1.3 billion. A comparison of the data with previous periods is provided in Figure 10 and 11.

Figure 10. Dynamics of the Project Numbers in the period 2013-2020

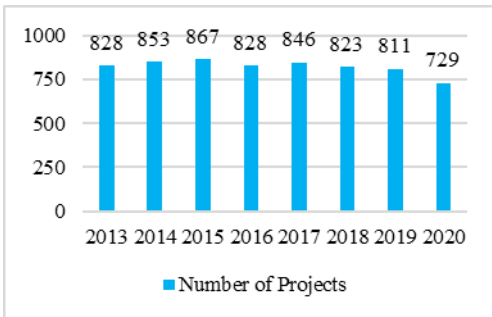
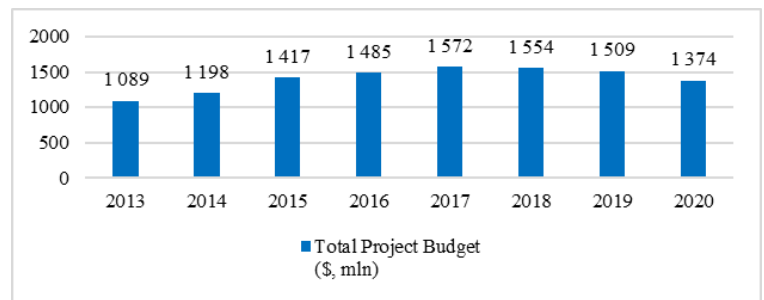


Figure 11. Dynamics of the total Project Budget in the period 2013-2020



Most of the projects from the budget standpoint fall under one of the three thematic priority areas of ISID: Creating Shared Prosperity (19 per cent of budget), Advancing Economic Competitiveness (16 per cent of budget) and Safeguarding the Environment (62 per cent of budget).

In order to analyse UNIDO’s project management practice we performed project management maturity assessment that was structured in 12 elements (see the heatmap on the right side).

The assessment showed that the core project management capabilities have been designed and exist in UNIDO. In general, the maturity of UNIDO’s project management practice regarding pre-implementation and evaluation stages is quite high, while implementation stage may require consideration. We presented key observations below in this regard.

Figure 9. UNIDO Strategic Framework (extract)

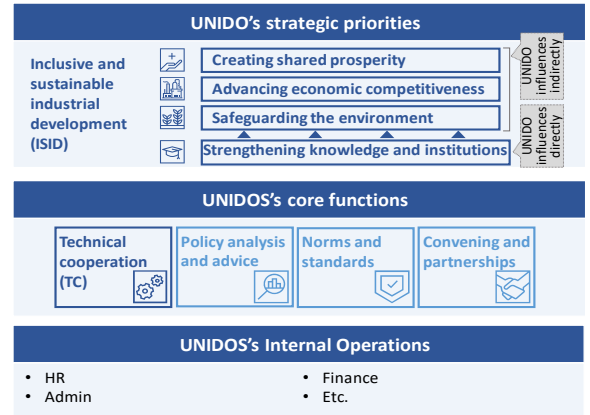
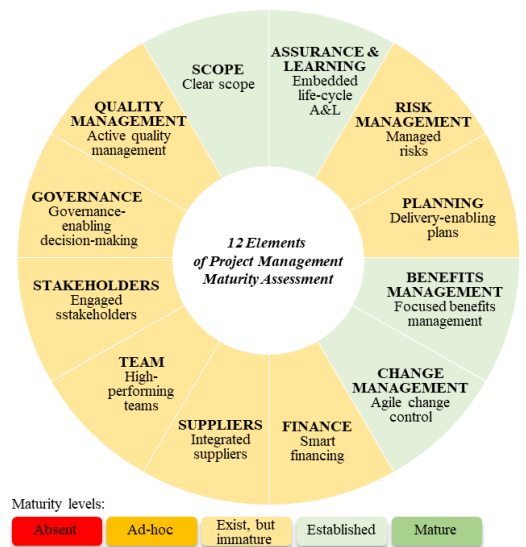
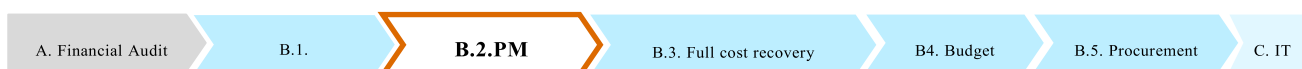


Figure 12. Project management maturity assessment





B.2.1. PM approach in brief

During the assessment, we highlighted several features that could help shed light on UNIDO's approach to project management. Below is a brief description of UNIDO's project management practices, broken down into several topics, including methodology, process, participants and IT.

Methodology

The core project management regulatory documents are outdated. The overall guidance that describes the project cycle and the tools to be used is contained in the "Technical Cooperation Guidelines", which have not been updated since 2006 and thus do not correctly reflect current project practices. Several additional documents have been published since then, including "Interim Arrangements for the Programme and Project Formulation and Approval Function" (2020), "UNIDO Quality Assurance Framework" (2019), "Programme and Project Formulation and Approval Function" (2016), "TC Programme / Project Revisions, Budget Revisions and Extensions including Funds Availability Controls" (2016) and "Evaluation Policy and Manual" (2018). Nonetheless, these documents reflect UNIDO's project management practices only partially and, in some cases, require updating (including to reflect UNIDO's actual organizational structure).

Process

Project management lifecycle includes steps from understanding the need up to independent evaluation of implemented project. UNIDO's project management procedures are geared towards pre-implementation activities, including conceptual and detailed project design, appraisal and approval. While project implementation (the most resource consuming part of the project) is also under UNIDO's responsibility, few standardized, detailed and updated rules and regulations for this stage were identified. This fact could be explained partially by the need to give UNIDO's project managers a "free hand" in solving delivery issues and in enabling them to cope with the changing environment. Regulation of the evaluation process is also strong. In particular, UNIDO has adopted an evaluation policy, while the evaluation manual describes the evaluation methodology and process in detail.

Project participants

The key project participant – the project manager – leads the process of conceptual design and detailed formulation for a given project (they develop the project concept and project document, get approval from relevant parties and set up the project team). Project managers bear full responsibility for planning and managing implementation, as well as for project monitoring and revisions.

In 2020 project managers were divided into three separate directorates due to the change in the organizational structure. Such organizational changes increase the need for the standardization of project management processes and procedures in order to align the activities of project managers from different directorates. While UNIDO plays a central role in project preparation and delivery, external participants are also involved in this process, such as experts hired via individual service agreements (ISA) and companies that provide professional services or goods that are part of the extended project team.

Use of IT systems (including SAP PPM)

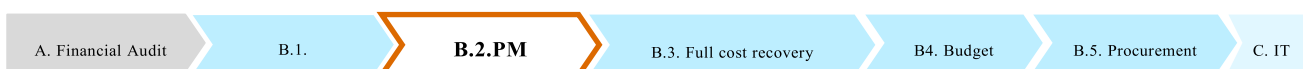
UNIDO's financial and operational activities are largely covered by SAP, including project management. The project management module (PPM), which helps to manage appraisal and approval procedures, was included in the very first SAP release in 2012.

B.2.1. Recommendation	Status: Open
<p>The outdated methodology has already been acknowledged by Management and the response has been initiated (a new edition of integral project management guidelines is planned for 2021). There are a few additional points:</p> <ul style="list-style-type: none"> Plan introductory activities in advance, such as trainings to introduce the updated guidelines, informational letters to staff and comprehensive manuals for contractors and other external parties. Organize updated guidelines and other policies and procedures related to project management in the form of an advanced online tool that is accessible worldwide with an interactive user-friendly interface, smart search system, templates of core documents, etc. 	

Management response

AGREE.

The drafting of the TC Guidelines is essential to also include and detail the processes which take place after the EB approval and before a terminal evaluation is conducted. The details surrounding the implementation need also to be defined therein and related guidance prepared.



In particular it is noted that training is foreseen in relation to the adjusted formulation, appraisal and approval process as well as the monitoring and reporting segments. These adjustments are underway. Training needs for grants management, funding agreements, contracting and recruiting as well as other implementation-related activities will also be considered and noted for HRM to ensure comprehensive planning for staff and consultants equally.

In relation to making the documentation available, this will also be ensured as the administrative instructions, guidelines, forms and templates are globally accessible on UNIDO’s intranet and OpenText platform, both of which have the required search functions. On the user friendliness of any system, this would be assessed and escalated to IT services, as necessary.

As recognized in the main body text, the update of the guidelines is ongoing. While currently the focus is on the formulation, appraisal and approval, as well as the monitoring and reporting-related activities, the report indicates the need to detail the operations related to the implementation stage of the cycle.

B.2.2. Additional project management observations

PM: B.2.2.1.

One-size-fits-all project management approach

Despite the variety of project types, the management approach is the same. It could be beneficial to differentiate projects and manage them based on complexity and type

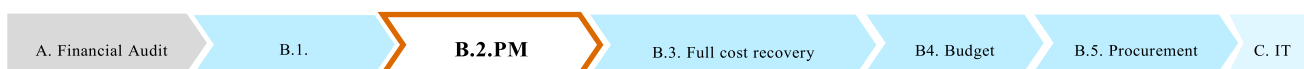
⚠ Medium

Recommendation

We recommend classifying projects and developing a project management policy that would devote more resources to complex and prioritized projects

UNIDO’s portfolio consists of a wide diversity of projects across different industries, countries and regions, thematic areas, etc. Projects diverge significantly along a number of parameters, including the following:

Parameter	Description
Project scale	<p>On the one hand, some projects focus on one or few core outputs such as a conference, education support, research or document development, etc.</p> <p>On the other hand, some projects are large and more complex, with the full scale of UNIDO’s capabilities presented, including procurement, adoption of new technology (modernization of existing facilities or green-field construction of new ones).</p>
Functionality area	The functionality area depends on the core output or product from the given project. Some projects are aimed at educating people or raising awareness, some at preparing larger interventions and others at developing regulatory documents.
Project budget	<p>Project budgets vary significantly depending on many factors. For example, if we look at UNIDO’s FY 2020 portfolio on the Open Data Platform, we can find the following portfolio structure regarding the size of the budget (percentage is calculated based on the number of projects in the relevant budget category):</p> <p><i>Figure 13. Distribution of FY2020 projects by total budget</i></p>
Level of project standardization	Some projects are new to the organization and produce unique outputs, while other projects deliver quite similar outputs in different territories.
Level of programme affiliation	Some projects are initiated under a programme, while other are stand-alone projects that are delivered independently.



Differences in projects often require different project management approaches. UNIDO does not have a holistic project classification approach that could allow to divide the portfolio into groups (based on project complexity and other characteristics) and propose scalable management approaches for these groups of projects.

For projects that are delivered for global beneficiary, which includes 18 per cent of total number of projects and around 14 per cent of total budget, special attention regarding classification should be paid. These projects cover a wide range of areas, including expert hiring and liaison offices work programmes.

Lack of clear project classification and a classification-related project management approach may lead to several challenges, including failure to address project specifics regarding the level of complexity and the failure to review projects grouped by tiers and classes in order to compare “apples to apples”.

B.2.2.1. Recommendation:

Status: Open

Perform a thorough analysis of:

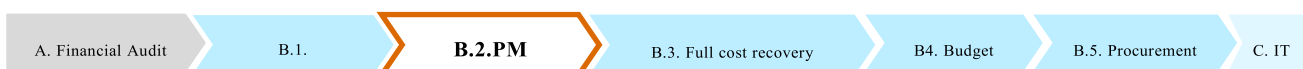
- UNIDO’s portfolio to understand the different project types and develop policy covering:
 - the scope of UNIDO’s project management (i.e., what types of activities should be managed as projects);
 - potential project tiers (by complexity, budget, strategic importance, risks, industry, output, etc.).
- Develop a project management model that recognizes different tiers and classes of projects:
 - Formulation, appraisal and approval mechanisms, e.g., use of less complicated workflow for standard projects;
 - Implementation and quality control.
- Consider using agile practices in project management. For some projects, it could become an effective alternative to the standard “waterfall” (consequential) approach to preparation and delivery.

Management response

PARTIALLY AGREE. The section tables a number of interrelated issues regarding the diversity of the UNIDO TC portfolio. As such, and recognizing the small number and small volume of the portfolio, the process related diversification, based on the substantive and/or administrative content of projects, is not efficient to contemplate. However, part of the findings can be reflected upon to ensure related considerations and improvements.

The core process of technical cooperation programmes and projects relies on a number of principle actors with their specific role and scope of influence. While the formulation, appraisal and approval process (FAA) is currently under review, it is worth noting that:

- In processing terms no volume, substantive, geographical or beneficiary coverage, programme/project delivery period, or donor eliminates the need for the basic actors to participate in the FAA process. For the future, the concepts are to engage the project manager, the Division Chief, the UNIDO Representative/Chief of Regional Coordination Division covering the country/region and the Director. These individuals are collectively to ensure their specific areas are duly considered and ensure thus the required portfolio management along with the planned technical intervention. Similarly for the programme/project document approval, the hierarchy of the Project Manager as well as the UNIDO Representative as well as the Managing Director of the project manager will be engaged before a central quality appraisal is performed. Finally, the Executive Board reviews and approves the case.
- Given the above core process, there is no programme or projects that can for any reason eliminate any of these minimal process steps and thus actors. There is not standard project as such and although a technical division may implement several projects focusing on delivery of the same technical solution, these will all be implemented against different national conditions and often be tailor-made to ensure the most effective intervention.
- While the process steps are kept to a minimum and where each reviewer in the work flow has a specific role, the quality advice and revision activities which are activated during the formulation process can be diversified. Using standard service modules in the future will allow project managers to increasingly standardize their interventions while tailoring parts to national specifics, which in turn also allow advisors to be more effective when providing their review and advisory services. Quality assessment criteria can also be increasingly standard in content. These improvements which are all under way, will not allow the diversification of submission/review processes.



PM: B.2.2.2.
Project management quality: areas for improvement
High
Recommendation
We recommend carefully reviewing the recommendations in this section and consider their further elaboration and implementation

The current observation is designed to encompass key areas for improvement that were identified as part of the maturity assessment. These areas are grouped into the following five topics:

Formulation, appraisal and approval process

This process involves different internal experts in UNIDO in order to gradually enhance the quality of project design. At the same time, we noticed the following:

- Advisors and reviewers who take part in appraisal are not part of the project document development team, so their engagement could become a formality (they may provide preformulated statements). Field offices that may be involved in the project do not participate in the appraisal process.
- Reviews by internal stakeholders are sometimes conducted at a very late stage. As a result, the value of their input is reduced (by that point, the core parts of the project document have been informally agreed with the donor/beneficiary, so it is difficult to make changes).

The lack of relevant reviewers (such as field offices) tends to produce formal and unfocused reviews, which may decrease the value of the appraisal process and, as a result, impact the quality of project design.

Internal monitoring standards and tools

When performing our assessment of project management, we did not identify the use of a standard and frequent internal monitoring approach that could help to keep track of project activities, risks, issues and benefits. Moreover, the IT system is not widely used to track the current status of projects during the implementation stage.

This makes it difficult to adequately assess the current status of projects and forecast their performance, including deviations from plans such as delays, and leads to a deficiency of information for preparing and verifying external reports.

Description of the implementation stage

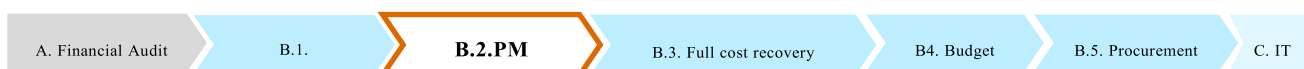
Implementation is usually the most resource-intensive part of a project. However, UNIDO’s current internal regulations do not describe the implementation stage in sufficient details. For example, the implementation stage is not divided into standard subphases and there are no standard sets of deliverables, results, milestones or criteria for making the transition to the next phase. These issues could complicate project management and control processes and thereby jeopardize the effectiveness and efficiency of certain projects, as well as the achievement of the results on time and under budget. The absence of key milestones can lead to a lack of clarity over progress and next steps.

Quality control procedures during the implementation stage

For the purposes of this report, quality control is about making sure that project management procedures strictly conform with standard internal practices (it is not the same as monitoring and reporting). During our assessment we noticed that the implementation stage lacks proper quality control procedures, in particular:

- Lack of documentation on quality control;
- Lack of regular quality reviews of key activities and responsible parties;
- Lack of regular reports and deliverables to be reviewed.

The lack of adequate quality controls could negatively impact project results, benefits and the level of satisfaction among stakeholders about the results.

**Recommendation:**

Status: Open

We recommend performing the following:

Formulation, appraisal and approval process:

- Reconsider the composition and roles of reviewers, including the extent and timing of their engagement.

Internal monitoring standards and tools:

- Establish internal reporting mechanisms with defined formats, responsibilities, clear and standard performance metrics focused on quantitative and RAG indicators.
- Develop portfolio progress dashboards and provide detailed descriptions of the monitoring steps required.

Description of the implementation stage:

- Divide the implementation stage into several phases, including inception, core execution and closing.
- Define a set of key deliverables for each phase and develop standard templates and appraisal, approval and storage procedures for these deliverables.

Quality control procedures during the implementation stage

- Establish a clear matrix of deliverables that includes a set of project documents based on the complexity and type of project, highlighting “audit” documents and defining the phase when the document shall be prepared.
- Perform regular quality reviews of status reports and deliverables and implementation of a stage-gate process.

Management response

PARTIALLY AGREE.

This section has a wide scope of issues noted and because of this, along with the variations of recommended actions, only partial agreement is possible.

- **Formulation, appraisal and approval:** In the process under revision, the timely engagement between project managers and advisors is recognized and guided. Roles and responsibilities are also outlined.
- **Internal monitoring standards and tools:** The work on defining the new monitoring and reporting policy and related operational guidance is ongoing. Dashboard related tools to define the monitoring will need to be assessed to consider efficiency gains which such an IT development would have on the overall performance.
- **Description of the implementation stage:** The implementation stage-related internal processes and their related activities and templates are to be reviewed and developed to ensure that also the implementation stage is updated and brought in line with the current operations in and out of the central ERP system. Subdividing the implementation stage into smaller sub-stages is fully possible.

Quality control procedures during the implementation stage: As noted above, the implementation stage of the TC cycle is also to be reviewed, redesigned and updated/adjusted to comply with current and future requirements. Quality control would need to be strongly integrated in the related processes, followed by appropriate document control. Identifying specific projects at risk to be accompanied by more frequent and/or detailed reviews is an element where a project-based diversification could be considered.



B.3. Full cost recovery (FCR)

Introduction

For TC projects, UNIDO incurs direct and indirect costs. While direct costs are fully charged to the project and covered by donors, indirect costs remain partially uncovered. In accordance with Annex II A.1.(d) of UNIDO’s Constitution, costs that are not covered by donors shall be covered by the regular budget.

In order to minimize costs related to TC activities and covered by the regular budget, UNIDO introduced a new full cost recovery (FCR) system to allocate UNIDO’s costs to donors and provide full cost recoverability in the future.

FCR: B.3.1.
Further FCR improvement Current FCR does not provide fully recoverability of total indirect costs arising during TC projects implementation
Medium
Recommendation We recommend continue focusing on cost efficiencies in order to optimize cost drivers and finally get UNIDO’s costs recovered

We acknowledge the real steps taken by Management to recover costs incurred in TC projects. The implementation of FCR implementation is a work-in-progress and further steps are being developed.

At the same time, we noted the following areas that UNIDO could pay more attention to:

- Although UNIDO’s expenses are allocated to donors under FCR, there are still expenses that donors do not cover. Such uncovered expenses are paid by Member States through the regular budget, so donors that are not Member States get more benefits from such projects.
- Since FCR was only introduced in FY 2020, the standard rates were calculated manually based on the historical expenditure associated with the delivery of the direct service type (e.g., HRM costs, IT costs, Procurement cost, etc.), statistical data and other relevant information, including surveys and benchmarking with unit prices of other UN agencies. Standard rates are periodically recalculated and updated in accordance with the respective methodology based on the actual expenses incurred in the prior year.
- Currently, all costs incurred under TC projects are reflected in the SAP Grant Management module only within the amounts of the project budget. Costs covered by the regular budget are not taken into account to assess project economy. Therefore, it may be complicated to trace the full amount of actual costs incurred under TC projects, perform a subsequent analysis and create a budget for similar projects in the future.

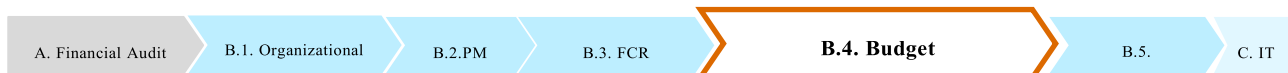
B.3.1. Recommendation:	Status: Open
We recommend that Management:	
<ul style="list-style-type: none"> • Continue its best efforts at launching FCR and focusing on cost efficiency, in particular, on optimizing cost drivers and getting costs recovered. • Automate the collection of data about the actual time spent by HRM, PRO and other departments on TC related activities by introducing timesheets on a regular basis to better reflect time spent on the tasks recoverable under FCR and subsequently more accurate calculation of unit costs. • Create system functionality to enable the analysis of all actual incurred costs. Such an approach would help to calculate future project budgets more precisely and provide more accurate information on actual costs. 	

Management response

PARTIALLY AGREE

- 2020 was the first year of mainstreaming FCR with the promulgation of administrative instruction AI/2020/06 and the FCR handbook. Efforts will continue to expand full cost recovery within the provisions of funding partner agreements, especially in terms of eligibility of costs. Any costs charged must be in line with FCR principles especially in terms of being directly attributable to project implementation.
- The scope of time-recording to include direct services is a future ERP improvement to the CATS module. Until this is in place, the current FCR methodology and data collection will continue by CMO/FIN.

A FCR budgeting tool was introduced in 2020 and during 2021 it is planned to introduce a FCR dashboard to enable further analysis of actual costs.



B.4. Budget

Introduction

The current Programme and Budgets 2020-2021 approved in GC.18/Dec.14 was based on 6 Major Programmes:

- A. Policymaking Organs
- B. Executive Direction and Strategic Management
- C. Thematic Programme Framework Towards Inclusive and Sustainable Industrial Development
- D. Corporate Management and Operations
- E. Buildings Management
- F. Indirect Costs

In FY 2020, in response to Member States’ request in GC.18/Dec.14 UNIDO introduced a new results-based budgeting system and established the first results-based Programme and Budgets 2022-2023. Thus, starting from the 2022-2023 biennium, UNIDO’s budget will be based on the following newly created results:

- Result 1. Policies and strategies for ISID and the SDGs;
- Result 2. Conducive industrial ecosystems;
- Result 3. Innovative, inclusive and sustainable businesses;
- Result 4. Effective strategic management for results;
- Result 5. Excellence of corporate services and operations;
- Indirect cost; and
- Efficient VIC buildings management.

In order to implement the results-based budgeting (RBB) system, UNIDO has created new SAP budgeting modules, developed a list of documents containing the approach to results-based budgeting and budget preparation 2022–2023, and periodically communicated with Member States about the status of RBB implementation.

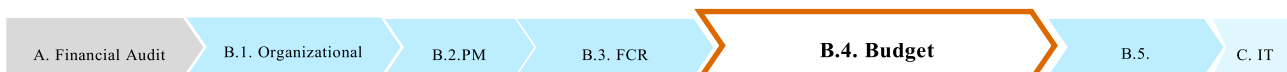
We believe that the proposed structure for Programme and Budgets 2022-2023 will be more understandable and focused on results. However, we wanted to bring attention to some observations regarding the current and upcoming Programme and Budgets.


Budget: B.4.1.	<p>During our analysis of the budgeting process, we noted that for the upcoming biennium Budget Service Division (BUD) usually sends submission templates to UNIDO structural units (divisions/departments), which include the following general fields to be filled in: fund centre, result, commitment item, amount, description/note/justification.</p> <p>UNIDO structural units specify their estimated expenditures for the upcoming biennium by filling in the above fields in the submission templates as they deem necessary.</p> <p>At the same time, we noted that UNIDO structural units typically do not perform a costs justification or, if so, they perform it formally. Explanations (if any) about why the current budget should be larger than the previous biennium are typically given in writing or orally at further budgeting hearings.</p> <p>There is no requirement to provide an explanation about requested expenditures, which may lead to the risk that Member States’ assessed contributions could be used ineffectively.</p>
Budget planning	
Justification of the budget expenditures is performed only for amounts that exceed previous budget	
Medium	
Recommendation	
We recommend requesting a justification for all expected expenditures	

B.4.1. Recommendation:	Status: Open
We recommend that Management consider requesting a justification for expected expenditures for the upcoming biennium and not only for those amounts that exceed previous budget in order to ensure that the regular budget is used effectively.	

Management response

AGREE.



Budget: B.4.2.
Budget transfers Lack of flexibility in transfers of expenditures
 Low
Recommendation We recommend providing more budget flexibility

According to Regulations 3.10, 3.11 and 4.3 FRR revised estimates in the approved budget shall be reviewed and approved at the PBC, IDB and GC in accordance with the procedure laid down for the initial estimates. No transfers between major expenditure items within the regular budget may take place, except when approved by the GC.

Since the GC is held every two years, it is practically impossible to make changes to the initially approved budget. As a result, the current budget system is quite rigid. Transfers may not be made between major expenditure items or between major programs/results (for the budget 2022-2023). Management tends to focus on budget execution and less so on opportunities to improve efficiency.

We noted that UNIDO would like to provide some flexibility to the Director General in order to approve transfers between major expenditure items within the approved regular budget, as this would make it possible to use the regular budget more efficiently.

B.4.2. Recommendation:	Status: Open
We recommend that Regulation 4.3 FRR be revised, and that the threshold be established (e.g. up to 10 per cent) below which no decision of the GC would be needed to make a transfer between major expenditure items in order to make it easier for Management to oversee more effective use of the regular budget.	

Management response

AGREE. The UNIDO Secretariat initiated discussions with Member States through the Informal Working Group on PBC-related issues in March 2021 on the issue of change to the Financial Regulation 4.3, to allow the Director General flexibility in regular budget implementation by authorizing transfers between major objects of expenditure not to exceed 10 per cent of the account group from which funding is being transferred.

Budget: B.4.3.
Distribution RB between TC projects Lack of information on allocating regular budget funds to programme and budgets projects
 Low
Recommendation We recommend revising the budget presentation format

In Programme and Budgets 2020-2021, about 50 per cent of RB is allocated to the program C “Thematic program framework: towards inclusive and sustainable industrial development” aimed at implementing the project activities of UNIDO.

UNIDO project activities are carried out within the framework of cooperation with Member States as well as non-Member States. Practically this means that part of assessed contributions is allocated to finance UNIDO activities beneficiaries of which are non-Member States of UNIDO. This approach is also formalized in A1. Annex II Constitution of the United Nations Industrial Development Organization, according to which regular budget can be used for covering programme support costs arising from technical assistance projects not reimbursed by the source of financing of such projects.

The current budget presentation format, as well as the draft budget for 2022-2023, to be drawn up on the basis of the results-based budgeting, does not imply a breakdown of UNIDO expenditures by projects with an indication of the respective beneficiaries (Member States / non-Member States), as a result of which the participating countries do not have full information about the purpose of using regular budget funds and the actual amount of funding for non-Member States projects.

B.4.3. Recommendation	Status: Open
We recommend, when budgeting for subsequent biennium, to present data on the use of regular budget for TC activities by projects or groups of projects, indicating the beneficiaries (Member States / non-Member States) to provide an understanding of the actual use of the regular budget.	

Management response

PARTIALLY AGREE. In view of the volatile nature of TC funds mobilization, project development and implementation, it is rather complicated to estimate distribution between projects/beneficiaries during the biennium budget preparation. With the further development and implementation of RBB, as well as reinforcement of linkages between MPTF and IRPF, along with FCR, this aspect will be further studied.



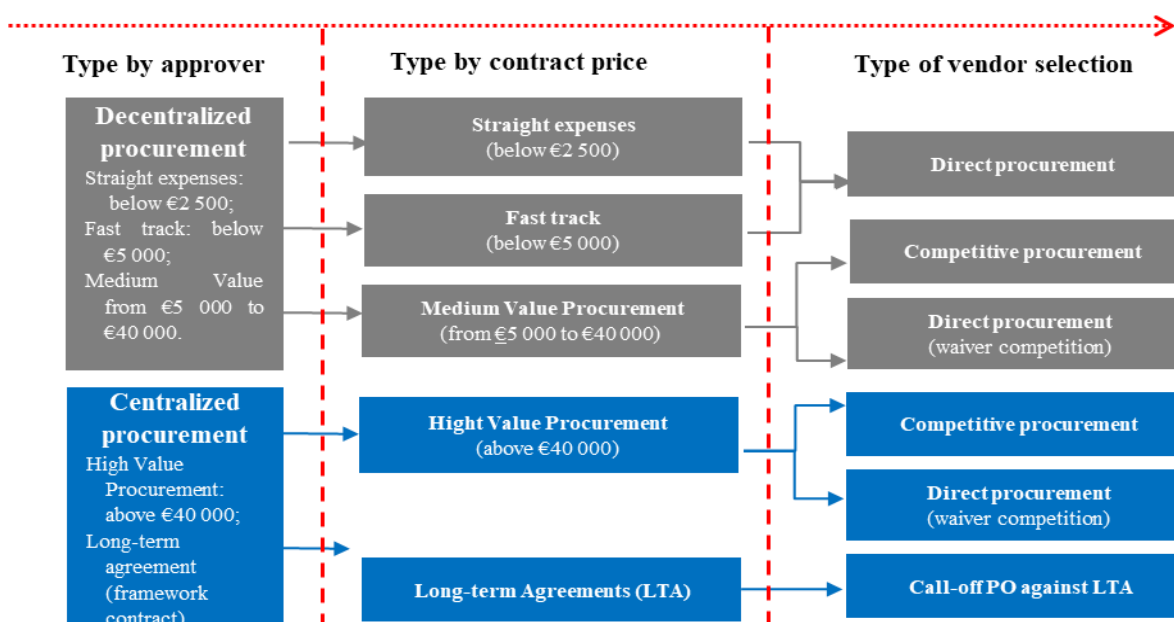
B.5. Procurement

Introduction

Procurement is one of UNIDO’s core business processes. Procurement is directly linked with TC project implementation. Procurement comprises the identification of procurement needs, planning, forecasting, sourcing and solicitation of offers, contracting, supply chain management, acceptance of goods and services and final payment. Procurement is primarily monitored by project managers/ allotment holders who are responsible for a particular project or by persons in charge from non-TC departments/divisions (if procurement is for administrative purposes).

The procurement process may be centralized or decentralized. UNIDO uses one of three methods to select vendors: competitive procurement, direct procurement including waiver of competition and call-off purchase orders under a long-term agreement.

Figure 14. UNIDO’s procurement types



During our assessment of the procurement process, we used data analytics tools to analyse the contracts signed in 2020 by type of contracts and type of vendor selection. The analysis by type of contracts is provided in Table 7 below.

Table 7. Analysis of Purchase orders approved in 2020

Type of procurement	Total				Below €5 000		From €5 000.01 to €40 000.00		Above €40 000.01	
	Amount	Per cent	Quantity	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
Call-off PO against LTA	2 946.44	2.13	124	1.55	44.30	1.50	1 129.18	38.32	1 772.96	60.17
Centralized Procurement	117 601.62	85.15	783	9.82	86.31	0.07	5 965.63	5.07	111 549.68	94.85
Waiver	73 877.93	53.49	448	5.62	48.46	0.07	3 546.96	4.80	70 282.51	95.13
Open Competition	43 723.69	31.66	335	4.20	37.85	0.09	2 418.67	5.53	41 267.17	94.38
Decentralized Procurement	17 570.50	12.72	7 068	88.63	7 409.78	42.17	10 093.52	57.45	67.20	0.38
Waiver	4 101.53	2.97	336	4.21	167.84	4.09	3 933.69	95.91	0.00	0.00
Open Competition	6 066.62	4.39	394	4.94	104.08	1.72	5 962.54	98.28	0.00	0.00
Straight Expenditure (incl. operational cash advance)	4 147.74	3.00	4 944	61.99	3 888.26	93.74	192.28	4.64	67.20	1.62
Fast Track Procurement	3 254.61	2.36	1 394	17.48	3 249.60	99.85	5.01	0.15	0.00	0.00
Total	138 118.56	100.00	7 975	-	7 540.39	-	17 188.33	-	113 389.84	-



Based on the figures above we can conclude the following:

- Decentralized procurement constitutes only 9.82 per cent of the total PO in monetary terms, while in quantitative terms it has the largest share of 88.63 per cent. This is a positive sign, since this statistic represents an efficient way to apply less sophisticated procedures to the transactions that occur often but are of relatively small value.
- Centralized procurement, on the contrary, has the largest share of 85.15 per cent of the total PO in monetary terms, whereas it amounts only to 12.72 per cent in quantitative terms.
- PO with waivers within centralized procurement constitutes more than half of total approved PO in 2020.
- Although UNIDO has the rationale behind applying waivers, e.g., a donor may require attracting specific service provider, the competitive purchases may help to consider whether contracts include market conditions favourable to UNIDO, donors and beneficiaries.
- Around 5 per cent of PO within centralized procurement are issued for an amount below €40 thousand despite of the terms in the regulatory documents requiring conducting centralized procurement only in case an amount of a PO exceeds €40 thousand.

B.5. Recommendation: **Medium**

We recommend that Management make sure purchases with waivers are kept at minimum, since 53 per cent (€73.8 million) of purchases are performed without competition.

Management Response

PARTIALLY AGREE. It is noted that the majority of waivers refer to engagements with Project Executing Entities, which have been subject to an institutional assessment and are explicitly mentioned in project documents. Some funding partners (i.e. GEF) require UNIDO to engage with external organizations (usually Governmental institutions, United Nations sister agencies, other international organizations) to execute projects. For such cases, open competition is not relevant.

Procurement B.5.1.

Shopping cart administration
Shopping carts and purchase orders contain excessive categories that lead to errors that must be resolved at later steps

Medium

Recommendation
We recommend enhancing the list of product categories as part of PO, developing step-by-step guidance for SC/PO review and implementing procurement shared service

The shopping cart (SC) is the initial system document created in SRM for a subsequent purchase. It is created by project team members and contains all the basic information needed for a future purchase, including information about the product category (which has a direct influence on subsequent accounting treatment, in particular, further capitalization or expense recognition).

When filling in the SC, project team members select a product category from the drop-down list and manually input other information, such as quantity, unit price, delivery date, etc.

The SRM automatically sends the newly created SC for approval to the person in charge, which is assigned by the system in accordance with the level of review established in UNIDO and with the type of purchase:

Decentralized procurement (fast track and medium value procurement) generally has only one level of review, performed by the project manager/allotment holder.

Centralized procurement (high value procurement) has two or more levels of review:

- The first level is performed by project manager/ allotment holder;
- The second level is performed by PRO;
- The third and other levels are performed if there are waivers, depending on the procurement value.

However, we identified cases of errors in several approved SCs (for example, incorrect product category or quantity). These errors were usually in cases of decentralised procurement with only one level of review performed by project manager/allotment holder. This suggests that additional oversight of the process for approving SCs could be improved.



Errors in SCs could be caused by the following factors:

- The list of product categories is not optimized (too detailed, contains similar names). As a result, the incorrect category can be accidentally selected, leading to errors in the accounting treatment as well as in the financial statements overall.
- SCs are approved in a formal manner and errors may go undetected. There is no step-by-step guidance, describing what fields are to be reviewed by project managers/ allotment holders and how.

Furthermore, incorrectly entered data in SCs are automatically transferred in the purchase order, which is the system document created in SRM based on vendor identification. For fast track procurement, the SRM automatically generates and approves the PO after the SC is approved, so there is no opportunity to correct errors transferred from the SC. In the other types of procurement (medium value and high value) project team members have the opportunity to adjust incorrect data and send it for further approval. However, PO approval does not provide the proper level of verification, as errors still take place. This leads to inefficiencies in the procurement process. In particular, the GSL and APT have to analyse the identified errors and determine how to correct them.

Moreover, we acknowledge UNIDO’s efforts in implementing a shared procurement service within ROTC, whereby procurement will be performed by a dedicated team with the appropriate knowledge and skills. We believe that launching such a service will help to reduce errors and, consequently, lead to the preparation of accounting and financial statements that are free of errors.

B.5.1. Recommendation:	Status: Open
We recommend:	
<ul style="list-style-type: none"> (a) revising the list of product categories to make it shorter and easier in use in order to avoid potential errors; (b) creating step-by-step guidelines for project managers/ allotment holders about the principles of SC/PO review to improve control; (c) continuing the best efforts in implementing a shared procurement service within ROTC. 	

Management response

AGREE.

Procurement: B.5.2.
Lack of a procurement plan
Lack of a procurement plan can lead to management inefficiency
Medium
Recommendation
We recommend creating a procurement plan

We noticed that UNIDO does not have a procurement plan in place and the recommendation given in para. 191 IDB.46/3 PBC.34/3 has not been implemented. The lack of a procurement plan can lead to management inefficiency, in particular:

- lack of the possibility to sign a single contract with a vendor instead of several contracts with the same vendor;
- equipment may not be on the market when UNIDO needs it;
- higher prices for individual purchases instead of lower prices for centralized bulk purchases;
- lack of proper planning cash flow.

We recognize that UNIDO mostly purchases items for TC projects, which often require particular pieces of equipment at a specific time, etc. At the same time, we believe that the development of a procurement plan will lead to the most economical and efficient use of funds.

B.5.2. Recommendation:	Status: Open
Developing a procurement plan and making it publicly available could have a beneficial effect on expanding the list of potential vendors that could offer more favourable terms, as well as ensure healthy competition.	

Management response

PARTIALLY AGREED. It is noted that an additional difficulty for setting an overall procurement plan resides in the fact that projects are funded by different funding partners with different requirements, including with regards to procurement.



C. IT audit

Key observations: IT audit

Observation	Level of risk
C.1.1. ITGC: Segregation of duties within IT-function	Critical
C.1.2. ITGC: Privileged account management	Critical
C.2.1. Cyber: Deficiency in ISM system and management support	High
C.2.2. Cyber: Information security risk management process needs improvement	High
C.2.3. Cyber: Vulnerability management process needs improvement	Medium
C.2.4. Cyber: Access to sensitive data from internal information exchange service	Critical
C.2.5. Cyber: Penetration test	Critical

C.1. Information technology general controls (ITGC)

Introduction

We performed an evaluation of Information technology general controls (ITGC) to assess the reliability and integrity of key applications used by UNIDO. The following applications were included in the audit scope:

- SAP ERP;
- SAP SRM.

The auditor’s evaluation of the information systems covered the following domains:

IT governance	IT leadership, IT organizational structure and processes that ensure the enterprise’s IT sustains and extends the organization’s strategies and objectives.
Program changes	The process of tracking and managing a change throughout its entire life cycle, including change request initiation and approval, coding, testing and acceptance, migration to production and change closure.
Access to program and data	The process of managing user access, including access granting/revision and removal, as well as privileged access and password protection.
Computer operations	The process aimed at supporting continuous operations, including real-time processing, batch scheduling and processing, backup and recovery, and the identification and remediation of IT-related issues.

Considering the fact that IT general controls were assessed by the Internal Audit earlier this year, our independent testing mostly focused on high-risk IT general controls and evaluation of the remediation status of IA findings.

As a result of our evaluation and validation of IT general controls and considering the conclusion reached by UNIDO, our overall opinion is that internal controls over IT require improvement. Detail description of audit findings assessed as “Critical” is provided below. Nevertheless, we see that management demonstrates control consciousness and puts forth considerable efforts to improve its internal control environment and comply with the best practice examples.

Management’s approach to remediation has been to focus first on more risky areas paying close attention to the development of effective controls design and implementation of monitoring procedures. Management is currently aware of the remaining deficiencies and the remediation activities are in-progress.



ITGC C.1.1

Segregation of duties within IT-function

Critical functions are not properly segregated at both organizational and operational level

⚠ Critical

Recommendation

We recommend management reconsidering current access rights and avoid SoD conflicts

We noted that the following critical functions are not properly segregated at the organizational and operational level:

- Development and implementation functions;
- Development and system maintenance functions.

We identified that system changes can be coded, tested and transferred to the live system environment by single IT specialist. Moreover, the same IT specialist may execute typical administration functions (system configuration maintenance and user administration). Such a situation contradicts the principles stipulated in ISO/IEC 27001, which requires the separation of duties and responsibilities. Although compliance is not mandatory, the failure to comply with ISO/IEC 27001 may reduce the overall effectiveness and reliability of the IT control environment. Lack of SoD negatively affects the internal control system and renders the design of IT controls ineffective. It may result in unauthorized and/or erroneous system and data changes that, in turn, may cause errors in data.

C.1.1. Recommendation: **Status: Open**

We recommend that Management avoid SoD conflicts and implement regular monitoring controls in order to identify and/or prevent SoD violations.

Management response

AGREE. Management takes note of the recommendation and stresses that the current capacity limits full segregation of duties.

ITGC C.1.2

Privileged account management

Critical permissions are not properly restricted

⚠ Critical

Recommendation

Reconsidering current SAP authorization concept

During our review of privileged access rights, we identified that the following permissions are not properly restricted:

- SAP_ALL/ SAP_NEW (so-called “Super access”);
- Write debugger;
- SAP production client maintenance.

Moreover, we identified that access to the generic privileged user account DDIC has not been blocked and may be used to log on to SAP.

A description and aggregated statistics of privileged permissions are presented in the table 8 below. For comparison purposes, we also added examples of privileged account management demonstrated by organizations that have effectively established and maintained a strong IT control environment (see the column under “Generally accepted practice”).

Overall, we see that number of users with privileged permissions is excessive. Moreover, we identified that a considerable proportion of these permissions belong to either business or third-party users.

Table 8. Privileged access

Privileged access	Description	Generally accepted practice
SAP_ALL / SAP_NEW	SAP_ALL/ SAP_NEW profiles contain all SAP authorization items and allows users to perform any action in SAP.	SAP_ALL/ SAP_NEW access is closed and only provided on temporary basis.
Write debugging	One of the most powerful access profiles in SAP. It may alter all master data, create a transaction or change security, e.g., create a powerful new user, that could be used to alter all data afterwards	WRITE DEBUGGING access is closed and only provided on temporary basis.

UNIDO’s current approach to privileged account management creates a significant threat to system integrity and data consistency. This could lead to unauthorized/erroneous actions if users were to implement critical access rights.

C.1.2. Recommendation: **Status: Open**

We recommend that Management reconsider the current SAP authorization concept to address the risk associated with privileged account management and implementing regular monitoring controls over the validity of privileged permissions.

Management response

AGREE. During the course of the audit, UNIDO reduced the access to the maximum extent possible. The activity on residual accounts is reported regularly to Senior Management.

C.2. Cybersecurity

Introduction

As a part of the audit of the financial statements we performed an evaluation of UNIDO's information security (IS) controls. In addition, we measured the maturity of UNIDO's IS processes. Overall information security governance and controls across the Organization were analysed based on a series of ISO/IEC 27000:2018 standards, including:

- Maturity assessment of information security under ISO/IEC 27001, ISO/IEC 27002;
- Benchmarking of information security controls using the Information Security Forum (ISF) assessments library.

In addition, we performed a vulnerability assessment to determine whether UNIDO would be able to sustain an external cyber-attack on its infrastructure and to confirm the effectiveness of the IS management system and cyber controls. During the testing, the following intruder model was considered: an external attacker who does not have privileges and credentials in the Organization's external infrastructure. The following tasks were performed during the vulnerability assessment:

- Detection and verification of vulnerabilities in network services and applications;
- Identification of threats and analysis of associated risks by exploiting detected vulnerabilities;
- Practical assessment of cybersecurity controls;
- Preparation of recommendations for improvement.

The external vulnerability assessment was performed remotely from the Internet to identify and exploit vulnerabilities in UNIDO's IT infrastructure and system components. The assessment was carried out as a simulation of the actions that a potential attacker would initiate to exploit vulnerabilities in UNIDO's network and infrastructure.

We followed a set of specific guidelines and practices to minimize risks to the normal operation of UNIDO's IT systems, including the OWASP Testing Guide, the Open-Source Security Testing Methodology Manual and Certified Ethical Hacker.

The goal of the vulnerability assessment was to determine the level of cybersecurity in UNIDO's IT infrastructure concerning threats associated with possible attacks by cybercriminals via the Internet.

During the work, our auditors uncovered **16 technical vulnerabilities** that were accessible via the Internet in UNIDO's information systems. The exploitation of these vulnerabilities let the auditors to get anonymous access to UNIDO's resources, establish a foothold inside the UNIDO perimeter, and gain access to a large set of sensitive data. Two major attack vectors were exploited during this exercise.


Audit vector #1. The `xfiles.unido.org` service (internal information exchange service) was successfully compromised, which let the auditors to get access to an extensive set of sensitive data including personal data (ID cards, passports), records of various internal meetings, etc. Leaks of this type of data could lead to financial and reputational losses. A successful attack would allow an intruder to access the internal files for a long period without being noticed, as well as to plan and develop further attacks on UNIDO's infrastructure and employees. This could cause significant threats to the confidentiality of information.

Audit vector #2. The `stat.unido.org` service (UNIDO's statistical data portal managed by a third party) was successfully compromised via a technical vulnerability, allowing the auditors to:

- Disrupt the normal mode of service operations;
- Gain access to the CONTEXCONNEX domain (the internal network of the support service `stat.unido.org`);
- Obtain all information from the databases for these services, including customers' email addresses and hashed passwords of UNIDO employees;
- Manipulate statistical data and reports;
- Obtain the source codes of applications that run on this service.

A service disruption or manipulation of statistical and reporting data could bring significant reputational damage to UNIDO. The auditors were able to gain access to the data for a long period. The auditors could have expanded their level of access to reach into UNIDO's financial systems and, potentially, to other ICT services. It is likely that the auditors could have extended their access via social engineering types of attacks, as they were able to obtain a password database. The auditors could have also elevated their privileges, which, if successful, would have allowed them to disrupt UNIDO's operations by breaking down key ICT systems.

C.2.1. Deficiency in information security management system and management support

Cyber: C.2.1	<p>UNIDO manages its information security using a bottom-up approach with a limited set of resources. While UNIDO does not have a formalized information security management system (ISMS), it has recently started considering establishing a formal ISMS to improve information security.</p> <p>UNIDO is limited in its ability to manage its information security function effectively, as a formal information security governance framework has not been established. This has led to the existence of “gray” areas with undefined responsibilities over information security. Integration of IS processes with business processes is carried out at the operational level. Business processes and objectives are intuitively set without a formal connection (integration) between business processes and information security.</p> <p>UNIDO has not developed an information security policy. The existing ICT policy does not address critical information security governance requirements. The lack of an information security policy as well as of alignment between information security and business strategy can decrease the capabilities of the information security function, limit support for strategic business transformation and impede risk mitigation initiatives. The lack of a formalized ISMS can also lead to difficulty in allocating the necessary resources for ensuring information security.</p>
Information security management and support	
<p>UNIDO has yet to develop an information security policy to address critical IS governance requirements</p>	
<p> High</p>	
Recommendation	
<p>We recommend UNIDO to develop IS policy and implement IS practice</p>	

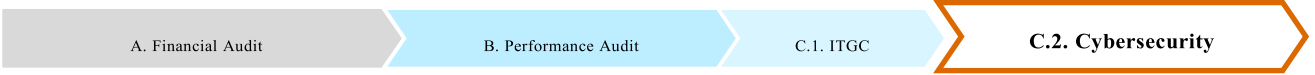
According to ISO/IEC 27001:2013, 5.1, 5.2:

- “Senior management shall demonstrate leadership and commitment with respect to the information security management system by ensuring the integration of the information security management system requirements into the organization’s processes;”
- “Senior management shall establish an information security policy that is appropriate to the purpose of the organization; includes information security objectives or provides the framework for setting information security objectives; includes a commitment to satisfy applicable requirements related to information security and includes a commitment to continual improvement of the information security management system.”

C.2.1. Recommendation:	Status: Open
<ul style="list-style-type: none"> • An IS policy should be developed, structured according to ISMS best practices, and supported at the right level of Management. The IS Policy should include a leadership statement that describes the position of senior management in relation to ensuring information security; • UNIDO should formally assign direct accountability for information security at the senior management level; • A top-down approach should be established to guide, advise and provide strategic support for the information security function; • A process to ensure continual improvement should be established and supported with the right set of KPIs and processes. 	

Management response

AGREE. UNIDO lacks resources to establish the IS function, which should be independent from the (operational) IT.



Cyber: C.2.2

Information security risk management process needs improvement

High

Recommendation

We recommend UNIDO to develop IS risk management procedure and maintain this practice

UNIDO has not adopted a formal information security risk management process. Risks have not been assessed and there is no information security register. The organization has an overall/intuitive view on the key risks related to information security, but has no formal plan on how they will reduce the likelihood of adverse events and the associated undesired effects.

The failure to identify or properly manage risks can increase the likelihood and magnitude of cyber incidents. Information security investment programs are less efficient if they are not driven by the mitigation of information security risks. According to ISO/IEC 27001:2013, 6.1, 6.2:

- “The organization shall define and apply an information security risk assessment process that establishes and maintains information security risk criteria and ensure that repeated information security risk assessments produce consistent, valid and comparable results;”
- “The organization should apply the information security risk assessment process to identify risks associated with the loss of confidentiality, integrity and availability for information within the scope of the IS management system;”
- “The organization shall define and apply an information security risk treatment process to determine all controls that are necessary to implement the IS risk treatment option(s)”.

C.2.2. Recommendation: **Status: Open**

- Develop an information security risk management procedure and conduct an information security risk assessment for the whole scope of ISMS.
- Develop a risk treatment plan for information security risks and integrate it in the information security development roadmap.
- Take a robust approach to information security and data protection risk reporting and monitoring at the senior management level to ensure that risks related to people, processes and technology are reported to senior management to inform decision making at the executive level.

Management response

AGREE. UNIDO understands this as a creation of a separate function, so it is subject to availability of resources.

Cyber: C.2.3

Vulnerability management process needs improvement

Medium

Recommendation

We recommend that UNIDO perform regular assessments of internal and external

UNIDO does not have well-built processes for managing information security vulnerabilities. Vulnerabilities are not regularly monitored. The cyber-attack readiness assessment showed that there are vulnerabilities in the IT infrastructure that could be exploited by an external attacker and cause serious harm to the organization. UNIDO uses the Security Scorecard service that partially covers vulnerability assessment requirements for Internet-facing resources. Nevertheless, internal resources are not in scope for this service. Therefore, the precise number of active vulnerabilities is unknown and UNIDO is limited in its ability to remediate them in a timely manner.

Unknown vulnerabilities could be exploited by external or internal threat actors to gain access to UNIDO’s IT infrastructure and data which could lead to a major cyber incident.

C.2.3 Recommendation: **Status: Open**

We recommend that UNIDO perform regular assessments of internal and external vulnerabilities. These assessments may also be supported by external penetration tests. Automated vulnerability assessment scans should be performed regularly. Vulnerabilities need to be assessed, prioritized and treated.

Management response

AGREE. UNIDO understands this as a creation of a separate function, so it is subject to availability of resources.

Cyber: C.2.4

Access was gained to sensitive data from internal information exchange service

⚠ Critical

Recommendation

We recommend to consider measures to increase cybersecurity level overall

The xfiles.unido.org service (cloud data exchange service) was successfully compromised by external auditors, allowing them to get access to an extensive set of sensitive data including:

- Personal data (ID cards, passports);
- Records of various internal meetings;
- Mailboxes of number of UNIDO employees;
- Contract with third parties;
- P&L reports and other sensitive data.

The auditors found employee credentials in leaked databases, which allowed them to gain initial access.

Leaks of confidential information could lead to financial and reputational losses for UNIDO. A successful attack would allow an intruder to access internal files for a long period without being noticed, as well as to plan and develop further attacks on UNIDO infrastructure and employees. This can cause significant threats to the confidentiality of information.

C.2.4 Recommendation:

Status: Open

We recommend that UNIDO consider taking measures to increase the overall level of cybersecurity and reduce the risk of real attackers employing the vulnerabilities discovered during this audit.

These following recommendations have the highest priority:

- address the technical vulnerabilities described in detailed report;
- improve security on the xfiles.unido.org service with additional technical controls.

These recommendations have the second highest priority:

- implement set of measures to prevent password guessing (like CAPTCHA-test);
- improve or implement detection and response capabilities (like EDR, IDS/IPS, SOC);
- start a vulnerability assessment and incident management program.

Management response

AGREE. UNIDO would like to stress that the successful attack exploited a compromised user account. UNIDO has made proposals in the 2022-2023 budget that will enable increased security of UNIDO’s credentials (i.e. Multi-Factor Authentication) and other improvements in security and compliance. Furthermore, it would also enable the Organization to acquire services and tools (i.e. vulnerability management service and others).

Cyber: C.2.5

Penetration test

UNIDO’s statistical data portal was compromised

⚠ Critical

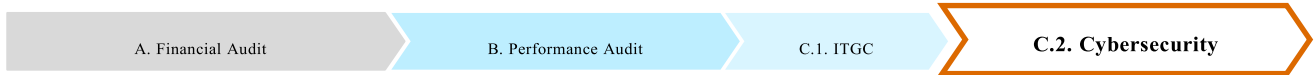
Recommendation

We recommend that UNIDO consider measures to increase overall cybersecurity level

The stat.unido.org service (UNIDO’s statistical data portal managed by a third party) was successfully compromised via a technical vulnerability (“Apache Tomcat Arbitrary File Reading”), which allowed the auditors to obtain administrator credentials and to establish remote access to the server in order to extract data from databases and access to the DMZ network. Using this service, a potential attacker could:

- Disrupt the normal mode of operations;
- Gain access to the CONTEXCONNEX domain (the internal network of the support service stat.unido.org);
- Obtain all information from this service’s databases including customers email addresses and hashed passwords of UNIDO employees.

A disruption in the service or manipulation of statistical and reporting data could bring significant reputational damage to UNIDO.



C.2.5 Recommendation:

Status: Open

We recommend that UNIDO consider taking measures to increase the overall level of cybersecurity and will prevent real attackers to employ vulnerabilities discovered during this audit.

These recommendations have the highest priority:

- Address the technical vulnerabilities described in detailed report;
- Improve security on the xfiles.unido.org service with additional technical controls.

These recommendations have the second highest priority:

- Implement a set of measures to prevent password guessing (like CAPTCHA-test);
- Improve or implement detection and response capabilities (like EDR, IDS/IPS, SOC);
- Start a vulnerability assessment and incident management program.

Management response

AGREE. The Division responsible for this web system is reviewing the entire application, which is considered to be legacy

D. Implementation of the External Auditor’s recommendations from previous years

We validated the implementation of the External Auditor’s recommendations from prior years. We noted that of the 73 recommendations, 37 (51 per cent) have been closed, 22 (30 per cent) are ongoing, nine (12 per cent) have not yet been implemented, and five (7 per cent) were merged. We divided the recommendations with “high”, “medium” and “low” priority in order to focus on the most meaningful recommendations (please refer to *Table 9–11*).

Table 9. Status of open recommendations

Type of recommendation	Number	Per cent
Implemented	37	51
Ongoing	22	30
Not-implemented	9	12
Merged recommendations	5	7
Total	73	100

Table 10. Priority of open recommendations

Priority	Implemented	Ongoing	Not-implemented
High	5	4	3
Medium	16	16	3
Low	16	2	3
Total	37	22	9

Table 11. Open recommendations (ongoing and not implemented) by year

Year of recommendation	Number	Per cent
2019	13	42
2018	13	42
2017	4	13
2016	1	3
Total	31	100

Appendix A presents the implementation status of the External Auditor’s recommendations.

We encourage UNIDO to strategize and maintain its continuing commitment to addressing the Auditor’s recommendations to enhance operational efficiency and effectiveness.

Appendix A

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
IMPLEMENTED RECOMMENDATIONS									
1	2019	para. 25 IDB.48/3 PBC.36/3	Voluntary contributions receivable 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.	Implemented. We use due date to control collections of VC receivables. VC receivables are reported regularly from customer ledger by due date and reviewed by FIN. All due VC receivables are monitored by APT and reported to FMT and SDR for follow-up.	EA notes UNIDO's actions in this aspect and agrees to close recommendation.	X			Medium
2	2019 2017	para. 42 IDB.48/3 PBC.36/3 para. 223.224 IDB.46/3 - PBC.34/3	Global Banking Project 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.	Implemented. Within VIM project, for the VBMD a specific procedure has been established to enter and confirm the bank master data in SAP system. Further improvements are being designed using Service Desk and iBot for initial entry and pre-verification.	EA observed a demonstration of the new vendor invoice management system. EA agrees to close recommendation.	X			Medium
3	2019	para. 60 IDB.48/3 PBC.36/3	Asset derecognition 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.	Refer to AI/2020/05 dated 22 December 2020 on the (Updated) UNIDO Property Management Manual which tightens up on monitoring and verifications. Ref para. 70: "...According to the provisions of IPSAS, UNIDO only retains in its records items over which it has control and where the asset continues to have future economic benefits or service potential. To align with these principles, items that are purchased for government or implementing partners and in respect of which UNIDO does not have direct control should normally be transferred to the beneficiaries upon physical confirmation of receipt thereof."	EA reviewed the updated property management manual, which contains a specific reference to the transfer of assets over which UNIDO does not have direct control. EA did not identify significant instances of the late transfer of assets within audit procedures and suggests to consider this recommendation as implemented.	X			Low
4	2019	para. 70 IDB.48/3 PBC.36/3	Enterprise risk management (ERM) Concretize and formalize 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.	DGB/2021/01 "Enterprise Risk Management Policy" released in January 2021. It uses the risk taxonomy adopted in the 2019 survey designed to create a Risk Registry offering a comprehensive overview of more than a hundred types of risks. The Risk Registry distinguishes six categories of risk, each one of them targeted by focused containment initiatives for instance on financial risks, fraud risks, operational risks etc. Strategic risks more specifically cover under the 2021 Risk Management Priorities adopted by the Executive Board in October 2020.	EA reviewed DGB/2021/01 "Enterprise Risk Management Policy" and acknowledges UNIDO's effort to cover all outstanding issues related to enterprise risk management. EA considers this recommendation as implemented.	X			Medium
5	2019	para. 77 IDB.48/3 PBC.36/3	Fraud risk management policy 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.	DGB/2021/01 "Enterprise Risk Management Policy" adopted by the EB in September 2020, and officially released in January 2021. It features a taxonomy of six broad categories of risks, including fraud risk. DGB/2020/10 further specifies the terms-of-reference of the Office of Ethics and Accountability under the Managing Director for Corporate Management and Operations.	EA reviewed DGB/2021/01 "Enterprise Risk Management Policy" and acknowledges UNIDO's effort to cover all outstanding issues related to fraud risk management. EA considers this recommendation as implemented.	X			Medium

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
6	2019	para. 82 IDB.48/3 PBC.36/3	Fraud risk assessment Enhance 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.	The newly-created Office of Ethics and Accountability (CMO/OEA) has contributed to the formulation of DGB/2021/03 "Accountability Framework" and works with the Office of the Special Advisor on Operations Coordination and Risk Management to fully embed fraud risk in the risk registry and to support the 2021 training programme for the Results and Risk Focal Points	EA acknowledges UNIDO's initiatives undertaken to implement this recommendation and considers it as implemented.	X			Medium
7	2019	para. 87 IDB.48/3 PBC.36/3	Policy on Financial Disclosure and Declaration of Interests 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.	The new, revised UNIDO Policy on Financial Disclosure and Declaration of Interests (DGB/2020/05) was issued on June 10, 2020. The new FDDI policy aims to identify, resolve and mitigate conflict of interest situations arising from the holdings (for example, investments) and/or activities of personnel. That may include advising personnel to divest themselves of holdings or to recuse themselves from a particular activity or aspect of their official function. This protects the organization against conflicts of interest and various organizational risks relating to the outside activities and financial engagements of personnel. It was the first update since 2010, and the revision aimed at aligning the policy with recommendations from the Joint Inspection Unit and External Audit, as well as with best practice from other international organizations. The changes made simplified the submission process, and significantly reduced the time spent by personnel on filling in the forms, and at the same time, tightened the monitoring of conflicts of interest. The Financial disclosure and Declaration of interests forms were merged into one single document. This new approach better preserves personnel members' privacy, and keeps to a minimum the administrative workload.	EA reviewed the revised policy on financial disclosure and declaration of interests and concluded that the recommendation has been implemented.	X			Medium
8	2019	para. 111 IDB.48/3 PBC.36/3	Delivery date as reckoning period for contract management 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.	PRO provides continuous advice and guidance on these recommendations. They also are included in training sessions.	EA recognizes that UNIDO is taking all necessary measures in this regard. However, during the audit, we still found instances of incorrect delivery dates. EA believes that UNIDO will continue to conduct similar activities on an ongoing basis, and ROTC implementation will minimize the number of detected errors. We suggest that this recommendation be closed, as the issue of the late recognition of assets was already outlined in the report above.	X			Low
9	2019	para. 116 IDB.48/3 PBC.36/3	Consolidation of procurement demands 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.	The scope of usage of LTAs is continuously expanding. Piggybacking on LTAs set up by other UNDS organizations are actively pursued. Also, in 2020 UNIDO signed the Mutual Recognition statement, confirming its active participation in collaborative procurement cases jointly with other UN agencies. It is proposed to close this item.	EA acknowledges UNIDO's initiatives undertaken and agrees to close the recommendation.	X			Low

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
10	2019	para. 121 IDB.48/3 PBC.36/3	Guidelines on the specific roles of process owners in the implementation of LTAs 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.	LTA general guidelines already included in the UNIDO Procurement Manual (Chapter 5.2 Centralized Procurement; 5.2.2 Long-term Agreements) and will be further expanded with the next revision of the Procurement Manual to reflect on 'lessons learned' etc. On the Intranet, specific guidance notes have been uploaded to provide guidance on the usage of specific LTAs. It is proposed to close this item.	EA acknowledges UNIDO's initiatives undertaken and agrees to close the recommendation.	X			Low
11	2019	para. 149 IDB.48/3 PBC.36/3	Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I Monitoring accomplishments (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; (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 project.	(a) There is a constant monitoring of progress and also an annual reporting on progress to the donor. The challenges in this particular industrial sector were recognized by the donor and the project was extended by one year. (b) UNIDO is doing whatever possible under given circumstances to enhance annual implementation. From donor perspective, the project is not considered having poor performance, but acknowledging that market transformation beyond developed countries has many aspects.	EA acknowledges UNIDO's efforts in timely monitoring and tracking the progress of the project. Therefore, this recommendation is considered closed.	X			Low
12	2019	para. 157 IDB.48/3 PBC.36/3	Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I Presentation of the ODS phase-out targets and accomplishments Require the presentation in the Work Plans 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.	ODS phase-out targets are reported on annual basis as per the agreement between the donor and China. So far no issues of in-compliance have been reported.	EA considered UNIDO's response and suggests that this recommendation be closed, as the reporting process is performed on an annual basis and there is no need for an additional presentation.	X			Low
13	2019	para. 161 IDB.48/3 PBC.36/3	Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I Updating the overall schedule of HPMP (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.	ODS phase-out targets are reported on annual basis and integrated in the annual progress report. It should be noted that the delays have no influence on ODS phase-out targets, since remaining activities relate to disbursement of incremental operating costs (IOC), which has no direct associated ODS phase-out.	EA considered UNIDO's response and suggests that this recommendation be closed.	X			Low

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
14	2019	para. 166 IDB.48/3 PBC.36/3	Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I <i>Details of the workplan</i> Require the details of the activities as well as the corresponding timelines to be presented in the Work Plan 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.	Work plans constitute always report on progress of previous tranches as well as activities and targets for the next tranche.	EA considered UNIDO's response and suggests that this recommendation be closed, as the current report contains all relevant information.	X			Low
15	2019	para. 172 IDB.48/3 PBC.36/3	Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I <i>Reporting project assets</i> 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.	With the setup of the mentioned project, UNIDO cannot apply the regular asset management. For mentioned project, eligible types of equipment and their quantities are detailed in a working document between UNIDO and FECO. Procured equipment is verified by: (a) Field missions by UNIDO staff; (b) Independent verification arranged by UNIDO; and (c) Verification undertaking by the Evaluation and Monitoring Officer of the MLF. It has been agreed with FECO to extend the asset monitoring and the correct use of procured assets until closure of the project.	EA considered UNIDO's response and suggests that this recommendation be closed, as all necessary information about assets procured is included in a working document.	X			Low
16	2019	para. 176 IDB.48/3 PBC.36/3	Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I <i>Monitoring of project assets</i> Develop mechanism that would monitor assets procured by subcontractors/ partners and utilized for project implementation.	The response to previous recommendation applies here as well.	EA considered UNIDO's response and suggests that this recommendation be closed.	X			Low
17	2018	para. 44 IDB.47/3 PBC.35/3	Property, plant and equipment 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.	EA confirms that LVA cost and accumulated depreciation were removed from the statement of financial position and notes to the FS. Therefore, EA suggests that the recommendation be closed.	X			Low

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
18	2018	para. 50 IDB.47/3 PBC.35/3	<p>Accounts Payable and accruals EA recommended that UNIDO:</p> <p>(a) Review all accruals that resulted from the small differences between the confirmations and invoices, which have remote possibility of being collected by the supplier and effect the necessary adjustments. In addition, the accruals which have been long outstanding need to be revisited and evaluated to ensure that the liabilities reflected in the books are still valid;</p> <p>(b) Review abnormal balances and if, based on the review, these are no longer valid, cancel them forthwith;</p> <p>(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</p> <p>(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.</p>	<p>The accrual account is regularly reviewed, and material abnormal balances adjusted.</p> <p>The design of the Vendor Invoice Management (VIM) solution accommodate for cases for invoices that do not reconcile with the confirmations.</p> <p>The liabilities that cannot be reasonably expected to be settled anymore were de-recognized.</p> <p>Therefore, we exercise described controls and monitor GRIR account regularly. Balances are being settled at project closure stage.</p>	EA reviewed the process of accrual recognition and confirmed that all material amounts are accrued manually. Balances on the clearing account are revised at the project closure stage and de-recognized when they cannot be settled.	X			Medium
19	2018	para. 81 IDB.47/3 PBC.35/3	<p>Updated financial instructions for BMS operations 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.</p>	Accounting manual on BMS updated in OpenText (42 AcctMan - BMS 2020.docx).	EA reviewed the updated accounting manual on BMS and agreed to close this recommendation.	X			Medium
20	2018	para. 89 IDB.47/3 PBC.35/3	<p>Accountability Framework and roles and responsibilities EA recommended that UNIDO develop a robust Accountability Framework to reflect all organizational components relating to accountabilities and further provide clarity to its mandate and staff roles and responsibilities thereby reinforcing the build-up of the culture of accountability and transparency within the Organization.</p>	A consultant has been appointed to develop the AF for UNIDO by end May 2020. DG Bulletin on Accountability Framework has been sent to EA on 29 Jan 2021.	EA acknowledges that a new accountability framework was issued and therefore considers this recommendation as implemented.	X			Medium
21	2018	para. 93 IDB.47/3 PBC.35/3	<p>Reporting lines of field offices 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.</p>	Revised ToR was issued 22 Sep 2020 and provided to the External Auditor.	EA reviewed the updated terms of reference from September 22, 2020, which include reporting lines and accountabilities. Therefore, we consider this recommendation as implemented.	X			Medium
22	2018 2017	para. 97 IDB.47/3 PBC.35/3 para. 110 IDB.46/3 - PBC.34/3	<p>Adoption of Internal Control Principles under the COSO ICF 2013 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.</p>	DG bulletin on Internal Control Framework has been sent to EA on 29 Jan 2021	EA received the internal control framework from January 29, 2021, and considers this recommendation as implemented.	X			Medium

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
23	2018	para. 128 IDB.47/3 PBC.35/3	ERM implementation road map and plans 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 work plans; and providing concrete and appropriate monitoring and control mechanism over the delivery of its ERM work initiatives including critical milestones.	Updated DGB/2021/01 "Enterprise Risk Management Policy" released in January 2021 taking into account external auditor recommendations.	EA reviewed DGB/2021/01 "Enterprise Risk Management Policy" and considered this recommendation as closed.	X			Medium
24	2018	para. 132 IDB.47/3 PBC.35/3	Risk management governance 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.	Updated DGB/2021/01 "Enterprise Risk Management Policy" released in January 2021 taking into account external auditor recommendations. The Executive Board approved in October 2020 the recommendation to merge the network of Results Focal Points with the planned network of Risk Focal Points into the Results and Risk Focal Point network, thereby stressing the interwoven nature of results and risks. The network was established in December 2020 and virtual training courses were offered to its members in December 2020 and January 2021. The terms-of-reference of the Results and Risk Focal Points are given in Annex IV of DGB/2021/01 "Enterprise Risk Management Policy".	EA reviewed DGB/2021/01 "Enterprise Risk Management Policy" and acknowledges UNIDO's effort to cover all outstanding issues related to risk management governance. EA considers this recommendation as implemented.	X			Medium
25	2018	para. 146 - 147 IDB.47/3 PBC.35/3	Assessment of Objectives and expected results expressing the outcomes influenced by UNIDO's interventions EA recommended that UNIDO improve its programme and budgets structure by: (i) clearly identifying the impact, outcome and outputs and identifying their causal relationships and the corresponding accountability for the delivering the results; and (ii) establishing the clear linkage of the programme and budgets 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 programme and budgets 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.	Implemented with 2022-2023 Programme and Budgets to go full RBB by moving to output level of reporting results, incorporating formulation and measuring delivery of results against IRPF indications	EA acknowledges that new 2022-2023 Program and Budgets is going to be prepared in the new structure based on the UNIDO key results and suggests that this recommendation be closed.	X			High
26	2018	para. 151 IDB.47/3 PBC.35/3	Identification of outputs, assumptions and risks for outcomes and outputs and consideration of risk mitigation strategies EA recommended that UNIDO: (a) Identify programme and budgets 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 programme and budgets to ensure the identification of programmatic risks at the outcome and output level and matching these with the	In 2020, CMO/FIN and ODG/SPQ led and coordinated the process and formulation of the UNIDO's first RBB, with the establishment of an advisory cross-Directorates/Department/Division RBB task team. Direct guidance is also obtained from the Executive Board supplemented by individual consultation with the DG and MDs. In December 2020, a group of Results and Risk Focal Points established, kicking off with the RBM component. The RBB structure contains 5 key results, aligned to the MTPF and IRPF with gender equality and empowerment of women mainstreamed. The 5 results are: Result 1 - Policies and strategies for ISID and the SDGs Result 2 - Conducive industrial ecosystems	EA acknowledges UNIDO's efforts identify outputs and establish key results and considers this recommendation as closed.	X			High

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			outcomes, outputs of the programmes/projects for adoption in the Risk Registers to be prepared; and (c) Engage closely with the RMC on the development of a risk model that will support the identification and matching of the programmatic risks with the outcomes and outputs of the programmes for adoption in their risk registers for improved risk identification for programme outcomes and outputs.	Result 3 - Innovative, inclusive and sustainable businesses Result 4 - Effective strategic management for results Result 5 - Excellence of corporate services and operations					
27	2018	para. 185 IDB.47/3 PBC.35/3	Programme-level Results Monitoring Process 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	UNIDO follows the updated Integrated Results and Performance Framework (IRPF) tools and indicators to provide a structured and systematic RBM approach to planning, implementation, monitoring, reporting, and evaluation of County partnership (CPs) and Programme and country partnership (PCPs). In order to enhance the monitoring of results in line with the Results-Based-Management approach for CPs, PFC/MD issued notification addressed to all CP Managers and concerned colleagues guiding the process of CP extensions and evaluations and related requirements. Going forward, PFC/PPC/CPD in cooperation with the Office of Evaluation and internal oversight developed a Final Self Evaluation (FSE) template, which will guide all CP Managers to conduct a final self-evaluation, in cases when an independent terminal evaluation is not possible due to exceptional circumstances. Related mail issued is attached. In this context, CPD enhanced its communication with CP Managers and field offices and closely monitors the CP cycles to ensure compliance with internal reporting, monitoring and evaluation processes.	EA acknowledges UNIDO's initiatives undertaken regarding this recommendation and considers it as implemented.	X			High
28	2018	para. 205 IDB.47/3 PBC.35/3	Procurement data to support clearance of project documents 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.	The pilot procurement planning procedure introduced in AGR has been successfully completed and is now intended to be rolled out in other Directorates by June 2021. Also, an organization-wide procurement planning functionality will be implemented as part of the work plan for 2021. It is proposed to close this item.	EA agreed to close this recommendation, as it is very similar to the recommendation about preparing an annual procurement plan (see para. 191 IDB.46/3 PBC.34/3, 2017).	X			Low
29	2017	para. 86 IDB.46/3 PBC.34/3	Reporting the workload 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.	Fully implemented in 2020 reference CATS user guides: https://intranet.unido.org/intranet/images/3/30/Fioriapp1.pdf https://intranet.unido.org/intranet/images/a/a8/CATSmanual1.pdf AI/2020/6 FCR handbook issued including Technical and Operational Services (TOS) https://intranet.unido.org/intranet/images/3/3d/FCR_handbook_1st_edition.pdf	EA observed a demonstration of the cross-application time management system. Therefore, the recommendation is considered as implemented.	X			High

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30	2017	para. 93 IDB.46/3 PBC.34/3	Weakness in full cost recovery EA recommended UNIDO to make efforts to increase transparency and enhance monitoring and timely reporting on the development of PSC reimbursement income.	FCR was successfully implemented in 2020. New Costing module started working in November 2020.	At several meetings with FMT, EA observed a demonstration of the costing module (CO). FCR will be applied to new projects depending on the donor's eligibility. We consider this recommendation to be closed.	X			High
31	2017	para. 119 IDB.46/3 PBC.34/3	Risk Management 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 factored into planning and control processes. Due attention should be given to a transparent and efficient coordination of the implementation process.	The 01 June 2020 restructuring of UNIDO creates the Office of the Special Advisor on Operations Coordination and Risk Management, a member of the Executive Board. ODG/OSA facilitated in late 2020 the promulgation of three inter-related policy documents on risk management (DGB/2021/01), internal controls (DGB/2021/02), and the accountability framework. All three policy documents are fully consistent with one another: they refer to the same overall accountability framework and rely on the same Three Lines Model recommended by the International Institute of Auditors.	Taking into account the establishment of DGB/2021/01 "Enterprise Risk Management Policy" (DGB/2021/01), internal control framework (DGB/2021/02), and the accountability framework, EA consider this recommendation to be closed	X			Medium
32	2017	para. 146 IDB.46/3 PBC.34/3	Assurance Providers 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.	DG Bulletin on ICF was sent to EA on 29 Jan 2021, which inter alia includes main roles of Oversight Advisory Committee.	EA reviewed the updated internal control framework, which outlines the main roles of the Oversight Advisory Committee and considers this recommendation to be implemented.	X			Low
33	2017	para. 250 IDB.46/3 PBC.34/3	Travel management 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 interest of organization is to issue advances as low as possible, therefore smaller advances are and will still be in place. This recommendation to be closed.	EA agreed to close this recommendation as smaller advances are immaterial and do not influence the financial statements.	X			Low
34	2016	para. 67 IDB.45/3 PBC.33/3	Voluntary contributions receivable 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 making voluntary funding available for Special Account of Voluntary Contributions for Core Activities (SAVCCA) and Major Capital Investment Fund (MCIF).	UNIDO persistently continues convincing its MS through the sessions of the Governing bodies held in 2020 (PBC.36 and IDB.48) to increase its contributions to SAVCCA, inter alia, in the context of the discussions on use of unutilized balances of appropriations. Implemented on ongoing basis.	EA encourages UNIDO's efforts undertaken regarding this recommendation and agreed to consider it as implemented on an ongoing basis.	X			Medium
35	2016	para. 105 IDB.45/3 PBC.33/3	Selection process 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.	(i) No final decision yet on reducing the threshold for competitive selection process, since the threshold was established with due regard to the existing procurement thresholds, rather than the average costs of an ISA contract. (ii) HRM confirms that it receives standardized rating sheets for all recruitments under competitive selection method (attached).	EA suggests that this recommendation be closed and will consider this area carefully next year as part of the performance audit.	X			Low

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36	2016	para. 111 IDB.45/3 PBC.33/3	Transparency of the selection process 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.	Find attached sample documents with the reasons for selecting/rejecting candidates to/from the short list and the final selection	EA was provided with the examples from the summary rating created in 2020 within the selection process to/from the short list and the final selection, which confirms the existence of a candidate selection procedures. Therefore, EA considers this recommendation to be implemented.	X			Low	
37	2016	para. 163 IDB.45/3 PBC.33/3	Physical inventory verification EA recommended that UNIDO proceed with implementing this project (Real Time Location System) 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 received the property management manual issued in December 2020 and containing conditions that the monitoring of assets is performed through (i) the Real Time Location Asset Tracking System (RTLS) and (ii) physical verifications. EA had a Zoom session on November 19, 2020, with GSL where the RTLS was demonstrated. EA considers this recommendation as implemented.	X			Medium	
ONGOING / NOT IMPLEMENTED RECOMMENDATIONS										
38	2019 2017	para. 21 IDB.48/3 PBC.36/3 para. 43 IDB.46/3 - PBC.34/3	Assessed contributions receivable 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.	Suggested revisions not approval in 2019, ref. reports of the PBC Informal Working group meetings in 2018 and 2019. However, use of Working Capital Funds was endorsed by the GC as a means of reducing UBs. Next representation will be considered in 2023 as going back immediately after rejection seems unreasonable.	EA acknowledges UNIDO's efforts to revise the provisions of the financial regulation 4.2 (b), (c) and encourages further activities to allow UNIDO to retain all unencumbered fund balances, as the current approach encourages late payments and negatively influences UNIDO's ability to use the regular budget effectively.		X		Medium	
39	2019	para. 29 IDB.48/3 PBC.36/3	Voluntary Contributions Receivable – Advance 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.	No submission to EB made as a Working Group is being established in 2021 reviewing UNIDO Donor Strategies The Donor Dashboard is being piloted with key members of CMO/FIN and EPR/ETR before a rollout to the EB and senior management in Q2 2021. Ongoing by FMT and SRM.	EA has taken into account the comments provided and will return to this recommendation in 2021.		X		Medium	
40	2019	para. 32 IDB.48/3 PBC.36/3	Voluntary Contributions Receivable – Advance Provide a facility in 2020 that would allow easier monitoring and generation of reports on programmable balances to aid efforts in programming the balances for UNIDO projects or activities.	Outstanding - this would need to be prioritized; APT has no call on the solution. So far, we continue to use manual data provided by FMT.	EA advises that this recommendation be given high priority. Its implementation should be initiated jointly by FMT and ITS.			X	High	
41	2019 2018	para. 37 IDB.48/3 PBC.36/3 para. 37 IDB.47/3 PBC.35/3	Long-term liabilities –After Service Health Insurance 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 scheme, for discussion with the governing bodies. Actions should be time-bound to implement the recommendations.	Presentation was made to PBC Informal Working Group in Feb 2020. A funding policy to be prepared to launch an ASHI reserve for Extra-Budgetary funded project personnel for consideration by the Executive Board in 2021	EA acknowledges the efforts made regarding this recommendation and will return to the update status request in 2021		X		Medium	
42	2019	para. 46 IDB.48/3 PBC.36/3	Confirmation of Delivery not the actual delivery nor acceptance date of the Asset Ensure the timely execution of confirmation of goods received in the SAP – FAM and Finance module to capture the correct	At the moment, the default date for the confirmation of the assets is the actual date when the Requisitioner inputs the Confirmation. It makes sense that the confirmation date should be the actual date when the delivery of the assets was	EA advises to consider making changes to the SAP settings that would allow assets to be put into operation in the period of their actual start of use, if this period			X	Low	

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			capitalization date; which will guarantee the correct period of recording the asset procured and computing the necessary depreciation expense.	confirmed and accepted. The system, however, is not flexible and requires major reprogramming and investment. Finance advised that even if ITS changes the system that the asset date is fetched from the delivery date, it would be only a partial solution as the asset dates cannot be backdated to previous years. Therefore, the current solution is continuation of sensitization within the house to ensure that the Requisitioners enter the confirmation as soon as the goods are delivered (not only when the invoice is received). As long as the Confirmation is done within the month of the delivery, then the capitalization of the assets starts from the beginning of that month.	refers to the same financial year as the date of confirmation approval.				
43	2019	para. 51 IDB.48/3 PBC.36/3	Grant of additional advances despite absence of delivery for prior advances and advance payment with no delivery for more than a year Institute measures that would obviate possible abuses 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.	With the roll-out of a contracts management functionality, a more pro-active management of open contracts will be ensured.	EA has taken into account the comments provided and acknowledges that the contract management process is still in progress. Therefore, EA will return to this recommendation in 2021.		X		Low
44	2019	para. 55 IDB.48/3 PBC.36/3	Need to provide capacity-building activities to the PM assistants Conduct technical skills and knowledge check on all users of the SAP Procurement module who are involved in the creation of shopping cart, receipts of goods, payment, recognition of assets and monitoring to identify appropriate interventions that would reduce, if not eliminate recurring errors and monitoring lapses.	With the roll-out of the Resource Optimization for Technical Cooperation (ROTC), Assistants will be in a position to focus more on the functionalities of the SRM module. Capacity building measures by PRO will become more focused on a fewer group of Assistants.	EA notes that ROTC implementation is still in progress and believes that it will improve the quality of work in SRM. An appropriate review of RPTC implementation will be conducted in 2021.		X		Medium
45	2019	para. 63 IDB.48/3 PBC.36/3	IPSAS Compliance Update the 2014 Edition of the UNIDO Policy Manual for IPSAS in 2020 to incorporate all IPSASs that have become effective as of December 2019.	Work in progress; it was delayed due to more important priorities.	EA advises that the UNIDO Policy Manual for IPSAS 2014 Edition be updated in order to have the UNIDO accounting policy in compliance with IPSAS standards.		X		Low
46	2019	para. 93 IDB.48/3 PBC.36/3	Fraud reporting mechanisms 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.	EIO prepared a draft investigation policy which provides for a central intake mechanism of allegations of wrongdoing, including those concerning fraud. The policy is currently being reviewed by the Oversight Advisory Committee (OAC), and comments and clearance awaited from in-house colleagues. The finalization and promulgation of the policy is expected during Q1 or Q2 of 2021	EA acknowledges UNIDO's initiatives to implement the current recommendation and will return to it next year.		X		Medium
47	2019	para. 102 IDB.48/3 PBC.36/3	Guidelines and clearly defined roles and responsibilities in the implementation of contract management Improve 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.	The training provided to substantive offices staff is an ongoing process. In the context of ROTC, a new training will be delivered to all concerned.	EA recognizes that the implementation of the ROTC program is still in progress. EA will consider the results in 2021.		X		Medium

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48	2019	para. 127 IDB.48/3 PBC.36/3	Monitoring guidelines for vendor performance under LTAs 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.	Vendor performance for an LTA, similar to any other Contracts, will be captured by the vendor performance reporting system project which has been kicked-off end 2020 in close co-operation with Technology Services Division (CMO/OSS/ITS) – blueprint has already been forwarded to an external service provider.	EA recognizes the initiatives that UNIDO has undertaken and will review the vendor performance reporting system in 2021.		X		Medium
49	2019	para. 137 IDB.48/3 PBC.36/3	Integration of sustainable procurement in the procurement processes Intensify efforts in operationalizing sustainable procurement principles by including in its regular procurement processes concrete and identifiable activities that demonstrate practices for sustainable procurement.	“Screening of sustainability of centralized procurement actions is regularly done through UNGM website, where centralized procurements must be published and in line with the methodology developed by the Sustainable Procurement Working Group of the HLCM Procurement Network to allow consistency of results and reporting. Moreover, a library with SP recent publications is available on Open Text of the Division (SUSTAINABLE PROCUREMENT RELATED MATERIAL (https://docs.unido.org/OTCS/llisapi.dll/link/10089761)”	EA recognizes that the integration of sustainable procurement principles is still in the progress and that UNIDO is undertaking all necessary action. An updated status will be considered next year.		X		Medium
50	2019	para. 144 IDB.48/3 PBC.36/3	Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I Project timelines Address the challenges that caused the delay 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.	The Covid-19 pandemic slowed progress in 2020 and consequently the donor, MLF, agreed to extend the project until end 2021. However, efforts in bringing new products into the market continued and domestic sales reached the level of 300,000 units end 2020. In 2021 additional efforts will focus on potential export markets.	EA acknowledges UNIDO's efforts and encourages new initiatives regarding focusing on potential export markets. This initiative will be reviewed in 2021.		X		Medium
51	2018 2016	para. 63 IDB.47/3 PBC.35/3 para. 35 IDB.45/3 - PBC.33/3	Structured financial guidelines EA recommended that UNIDO consider the formulation of structured financial guidelines that would guide finance and other affected personnel in carrying out their roles and functions, thereby securing reliability of accounting records, affirming accountability and promoting operational efficiency.	As of Jan 2021, 10 Accounting manuals are in OpenText. Works to continue in future, providing resources are available.	EA recognizes that UNIDO issued the following accounting manuals: 1. HCM payroll; 2. Revenue recognition; 3. PPE; 4. Goods receipt and confirmation; 5. BMS accounting; 6. BMS restatement; 7. VIC and MRRF accounting; 8. Operational cash advance (OCA); 9. Goods and services tax (GST), India. EA encourages UNIDO to issue an additional accounting manual about the financial statement closure process.		X		Medium
52	2018	para. 68 IDB.47/3 PBC.35/3	Chart of accounts (CoA) 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.	Updated Chart of accounts extracted from SAP was provided.	The Chart of Accounts for 2020 does not contain a clear account description. Therefore, it is difficult to understand its purpose. EA recommends that UNIDO update the name of accounts or include additional column with comments about account use.			X	Low
53	2018	para. 107 IDB.47/3 PBC.35/3	Ethics-related policies and documentation 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	(a) (i) The current policy on protection against retaliation for reporting misconduct or cooperating with audits or investigations (DGB/(M).116), has a broad coverage. It applies to whistleblowers who are either staff members appointed under any of the series of the Staff Rules, or who are non-staff employees such as consultants, experts and interns, regardless of the duration of the appointment or	EA considered UNIDO's response and suggests that recommendations (a) and (b) be closed. The implementation of recommendation (c) will be reviewed in 2021.		X		Medium

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			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 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.	equivalent arrangement. The "individuals who are perceived as whistle-blowers, or as assisting whistle-blowers" would be covered. (a) (ii) If a staff member disputes the Ethics Office's finding that no prima facie case of retaliation has been established, the Ethics Office is empowered to advise the staff member to request the Director-General's review in accordance with Staff Regulation 12.1. The Director General's decision on the request for review would be further appealable in accordance with the established procedures for internal appeals, including, eventually, to the ILO Administrative Tribunal (ILOAT). (b) UNIDO does not have a conflicts of interest policy. The matters pertaining to potential conflicts are regulated in: - DGB/(M).115 - Code of Ethical Conduct - DGB/2020/05 - UNIDO Policy on Financial Disclosure and Declaration of Interest - DGB/2020/10 – Terms of Reference of the EAO;- 2013 DGB/(M).94/Rev.1 – Policy on Fraud Awareness and Prevention - DGB/2019/10 – Competency Framework - DGB/2019/12 – Prohibition, prevention and resolution of harassment, including sexual harassment, discrimination and abuse of authority - DGB/2020/06, DGB/2020/03, DGB/2020/01 – Staff Regulations and Rules - DGB/2021/3 - Accountability Framework - Standards of Conduct for the International Civil Service. (c) The updated EIO Charter (approved by IDB 48th) have the provision to address point c. Furthermore, EIO is foreseeing further provisions for allegations against the Executive Head in the investigation policy, which is currently under preparation and being discussed with OAC. Promulgation expected in Q1 or Q2 2021.					
54	2018	para. 120 IDB.47/3 PBC.35/3	End-user procurement feedback mechanism 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.	Due to the COVID-19 related impact the solution is now planned to be completed in 2021.	EA noted UNIDO's response and will return to this recommendation next year.			X	Medium
55	2018	para. 124 IDB.47/3 PBC.35/3	Vendor sanctioning policy 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.	Due to COVID-19, the matter could not be actioned in 2020. Consideration will be made to action the recommendation in 2021.	EA noted UNIDO's response and will return to this recommendation next year.			X	Medium
56	2018	para. 163 IDB.47/3 PBC.35/3	Alignment of Work plans with the results in the programme and budgets and the elements of RBM EA recommended that UNIDO enhance its work plans and	Progress has been made where UNIDO will release its first RBB programme and budgets for 2022-2023. This will establish the foundations for efforts to align workplans to the result-based programme and budgets which will move into its consultative phase with Member States. Once this is	EA acknowledges UNIDO's initiatives undertaken in this aspect and will consider the status next year.			X	Medium

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			work planning process by aligning it with the results in the programme and budgets and the elements of RBM.	approved and endorsed, it is anticipated that it will enable SPQ and CMO/FIN to progress to the next stage of aligning the workplan to the programme and budgets, and the IRPF, and ultimately the MTPF.					
57	2018	para. 166 IDB.47/3 PBC.35/3	Work plan monitoring and reporting EA recommended that UNIDO enhance its work plan monitoring and reporting through the development of a system including tools, templates and guidance; and make these an integral part of the corporate monitoring and reporting framework to ensure that accomplishments and progress are accurately reported and measured against planned deliveries and further support results accountability.	SPQ anticipates that this can only progress following the endorsement and approval of UNIDO's first RBB programme and budgets.	EA considered UNIDO's response and will return to this recommendation next year.		X		Medium
58	2018	para. 173 IDB.47/3 PBC.35/3	Monitoring and Results Reporting on the MTPF and programme and budgets 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 programme and budgets, and how these contribute to the identified outcomes in Member States in accordance with the adopted results hierarchy; (b) Adopting a biennial assessment of performance on the programme and budgets 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.	A page dedicated to the IRPF is available on the intranet accessible to all personnel (https://intranet.unido.org/intra/UNIDO%E2%80%99s_Integrated_Results_and_Performance_Framework). The Annual Report 2020 will be the 2nd year for reporting of results using the IRPF. In addition, the Results and Risk Focal Points established in December 2020 is anticipated to support the further implementation of the IRPF. An e-learning module on the IRPF and its application is being finalized. The requirement of results-based monitoring and reporting is also part of the quality requirements promulgated in the UNIDO Quality Assurance Framework (QAF), DGB/2019/11). An e-learning module on the QAF is being finalized.	EA recognizes UNIDO's efforts to implement the recommendation and believes that upcoming initiatives indicated in UNIDO's response will stimulate further implementation of the IRPF.		X		High
59	2018	para. 177 IDB.47/3 PBC.35/3	Corporate results monitoring and reporting framework 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.	In 2021, the Programme and Project Module in SAP now contains an updated IRPF reporting and data collection portal. Initial coverage of approximately 50 per cent was achieved. Some quality issues have emerged, and learning lessons from this, we hope to strengthen the quality assurance mechanism as a potential resolution. The Results and Risk Focal Points established in December 2020 will support the further implementation of the IRPF. A new Monitoring and Reporting Policy is currently under preparation. It is led by ODG/SPQ/QUA and EPR/ETR/SRM as part of the TC Task Force endeavours to update the outdated TC guidelines. The policy's objective is to facilitate the organization's monitoring and reporting of its overall progress towards its Medium-term Programme Framework (MTPF). TC-specific annexes are being prepared which relate to (i) Guidelines on Reporting on Development Cooperation Activities with the primary objective to contribute to UNIDO's fiduciary responsibilities in the management of resources entrusted to it for the	EA encourages UNIDO to continue the initiatives undertaken and will consider the status next year.		X		High

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
				discharge of its mandate, and to ascertain a timely and relevant monitoring and reporting on the use made of such resources; (ii) reporting templates; (iii) a Programme- and Project-At-Risk System; and (iv) Guidelines on Monitoring and reporting throughout the TC programme and project lifecycle. Through the TC Task Force, related existing policies and instructions are being revised by the respective policy 'owners', such as the FFA process or the programme and project revision and extension processes, to which QUA contributes. Finalization of the M&R policy and its annexes is interdependent with other ongoing reforms and their implications on rules and regulations, such as ROTC and related financial rules. Capacity building on revised and new administrative issuance is foreseen once they are promulgated. Priority will be given to departmental Results and Risk Focal Points (RRFPs), who are then expected to support the further roll out and application.					
60	2018	para. 191 IDB.47/3 PBC.35/3	Updating of the TC Guidelines 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.	Following the UNIDO restructuring the EB established a Task Force for the development of the TC Guidelines and related administrative issuances. The work is currently progressing and some segments are expected to be completed in 2021. Also, following the restructuring, DGB/2020/07 was issued to govern the DGB/2016/6 processes in view of the new Directorates.	EA encourages UNIDO to continue the initiatives undertaken and will consider the status next year.		X		High
61	2018	para. 196 IDB.47/3 PBC.35/3	Well-defined risks for projects 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.	The mentioned update of the DGB is part of the ongoing work of the TC Guidelines Task Force and within that scope the system compliance sheet will be issued.	EA acknowledges UNIDO's efforts to comply with the recommendations and will consider the updated status next year.		X		Medium
62	2018	para. 200 IDB.47/3 PBC.35/3	Structured formulation of the Project Logframe 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 QUA staffing situation remains inappropriate. QUA OiC is still the only regular P-staff (P5 assigned to SPC, P2 on Special Leave until February 2022); the current two ISA contracts are not a sustainable solution; moreover, it is risky for the organization to rely on the constant availability of one P-staff for clearance and processing of TC submissions to the EB, as well as of TC progress reports once the new Monitoring and Reporting policy will be promulgated. Both was confirmed by the FAA evaluation and the donor reporting audit.	EA emphasizes the importance of adequate staffing of the QUA, as their expertise is well suited to provide early advice on program and project quality and to increase the number of staff in QUA.			X	High

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
63	2018	para. 211 IDB.47/3 PBC.35/3	Conduct of ex-post evaluation We recommended that UNIDO: (a) establish funding mechanism that would support independent evaluations to gauge the impact of programmes/projects to UNIDO's programmatic thrusts; and (b) develop an estimate of the resources (financial, human, capital) that are available for evaluation and what will be required to answer current and future evaluation demands, to support the proposal for establishment of an evaluation funding mechanism.	Not much progress on the establishment of a funding mechanism that allows a more flexible use of project related evaluation funding. Reasons: Administrative barriers, not prioritized issue. for (a): Ongoing discussion for the use of the new internal mechanism established for the full-cost recovery, to cluster project evaluations and include the impact dimension when feasible. for (b): EIO has requested to include the operational funding for Evaluation in the programme and budgets 2022-2023, which could allow planning ex-post evaluations and impact level evaluations.	EA acknowledges UNIDO's efforts undertaken in responding to this recommendation and understands that it is still in the progress. EA will return to this recommendation next year.		X		Medium
64	2017	para. 125 IDB.46/3 PBC.34/3	Risk Management EA encouraged UNIDO to develop a Statement of Internal Control (SIC).	The three DG Bulletins on risk management, internal controls, and accountability framework were released simultaneously at the end of January 2021. The need for a SIC had not been addressed by the time of compiling this report (February 2021)	EA suggests that UNIDO consider the need for an SIC in 2021. EA will come back to the status of this recommendation next year.			X	Low
65	2017	para. 160, 183,184 IDB.46/3 PBC.34/3	Information security EA recommended implementing an Information Security Management System (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. CMO/OSS/TTS made progress on certain technical controls linked to ISO27002, but that does not address the essential elements of the recommendation which require resources independent from ICT Management.	EA noted that financing limitations prevented these recommendations from being implemented. However, UNIDO must prioritize these since ICT governance is at stake.			X	High
66	2017	para. 191 IDB.46/3 PBC.34/3	No procurement plan in place 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, UNIDO does not have an overall annual procurement plan. EA suggests that this recommendation be prioritized in order to ensure a more efficient procurement process.			X	Medium
67	2017	para. 207 IDB.46/3 PBC.34/3	No contract management in place 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.	The new contracts management system design is ongoing: The system aims at supporting the existing ERP SRM system functionality in terms of <ul style="list-style-type: none"> Tracking (e.g. flagging for due/over due dates) main contract terms and deliverables and documents such as: <ul style="list-style-type: none"> start and end dates; advance payment dates and terms; progress payment dates and terms; final payment dates and terms; non-financial deliverables and terms (e.g. bank guarantees, insurance policies, statements, acceptance certificates, etc.). These functionalities should be automated as much as possible to avoid/reduce the need for manual upload and input. 	EA acknowledges UNIDO's actions to implement these recommendations and encourages that further steps be taken. EA will consider the status of the contract management system next year.		X	High	

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
				<ul style="list-style-type: none"> Reporting – issuing of various event-based reports for tracking requirements as well as for management monitoring (aggregate reporting by type of contract, vendor, country, etc.) <p>Implementation status:</p> <ul style="list-style-type: none"> The tracking functionality can be extended at any point in time (e.g. to cover additional functionality requirements such as sustainable procurement, funding partner specific terms, etc.). <p>Foreseen go-live (after initial testing) – Q2</p> <ul style="list-style-type: none"> Automatic contract template creation functionality, ensuring maximum system automation (i.e. data from SRM system) and at the same time sufficient flexibility for complex requirements/tailoring. <p>The contract templates include the following model contract forms:</p> <ul style="list-style-type: none"> o model service contract o model goods/equipment contract o model services and equipment contract o model works contract o model turnkey contract o model incremental operating cost contract (Montreal Protocol related) o model incremental capital cost contract (Montreal Protocol related) o model Project Execution Agreement o other contract forms will be developed as and when required <p>The new model contract forms have the following structure:</p> <ul style="list-style-type: none"> (a) Main contract containing all contract specific data/information (name and address of parties, contract dates, contract amount, deliverables etc.) (b) Special conditions (in case contract requires adaptation of the UNIDO General Conditions of Contract and other special contractual arrangements); and (c) UNIDO General Conditions of Contract <p>A pilot contract template was set-up by Information Technology Services Division (CMO/OSS/ITS) through an external service provider, initial testing carried by CMO/OSS/PRO and technical shortcomings identified were reported. End 2020 ITS informed that due to an update of the system heavy bugs were identified which are presently reviewed/clarified by company and ITS. Once the bugs/system errors have been corrected a final PRO Division testing will be conducted for final fixings and thereafter going live of 1st contract template is foreseen. Subject to resources, in a second phase Model contract templates can be rolled out one by one.</p> <p>In view of the above final implementation time pending on progress of bug fixing.</p>					

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor (EA) Assessment	Status:			Priority
						I	O	N	
68	2016	para. 100 IDB.45/3 PBC.33/3	Weakness in internal control 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.	The recommendation is reflected in the updated ISA Framework which is still under review. The PMs/AHs selection decisions are reviewed by HRM. HRM also provides standardized rating and assessing sheets to the PMs. The final draft of the revised ISA Framework is expected to be circulated to the concerned personnel by the end of Feb. 2021	EA encourages UNIDO's efforts regarding this recommendation and will consider the results next year.		X		Medium

ACKNOWLEDGMENTS

We wish to express our appreciation for the cooperation and assistance extended to our staff during our audit by the Director General and by UNIDO's management and staff.

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 the External Auditor for the 2020-2021 financial years.

Chairman

Aleksei Kudrin

the Accounts Chamber of the Russian Federation

External Auditor

Moscow, Russia

April 16, 2021

A handwritten signature in blue ink, consisting of several large, overlapping loops and curves, positioned to the right of the text.

ANNEX 1. FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Report by the Director General

1. I am pleased to present the 2020 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

	2020		2018	
	Millions of euros	Percentage	Millions of euros	Percentage
Assessed contributions receivable	69.5	100.0%	68.4	100.0
Received by the end of the relevant year	60.1	86.5%	61.2	89.5
Shortfall in collections	9.4	13.5%	7.2	10.5

3. The rate of collection of assessed contributions for the year 2020 was 86.5 per cent, which is lower than that for 2018 (first year of previous biennium) at 89.5 per cent. The accumulated outstanding assessed contributions at year-end were €21.3 million, excluding an amount of €71.2 million due from former Member States, leading to an increase from 2019 (€17.8 million). Annex I (e), contained in conference room paper PBC.37/CRP.4 provides details on the status of assessed contributions. At present four Member States are under payment plan agreements to settle their arrears. The number of Member States without voting rights was 39 in December 2020 – in comparison to 41 in December 2019.

Performance based on the budget basis

4. The adoption of IPSAS in 2010 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 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 2020.

6. The comparison is based on the programme and budgets for the year 2020, as adopted by the General Conference at its eighteenth session (decision GC.18/Dec.14), consisting of a regular budget annual gross expenditure of €71.2 million to be financed from assessed contributions in the amount of €68.7 million and from other income of €2.5 million.

7. On a budget basis, the actual regular budget expenditure during the year 2020 amounted to €64.1 million (compared with €67.6 million for the year 2019), or 90.0 per cent (compared with 99.3 per cent for the year 2019) of the approved gross expenditure budget.

8. The actual collection of other income for the year 2020 amounted to €1.1 million, including from government contributions to the cost of the field office network, miscellaneous income and financing towards the budgetary gap. The total net expenditure of €63 million represents 91.7 per cent of the net regular budget appropriations of €68.7 million. The resulting balance of net appropriations as at 31 December 2020 amounted to €5.7 million (see annex I (a) and I (b), PBC.37/CRP.4).

9. In the operational budget for the year 2020, the reimbursement for programme support costs amounted to €16.8 million (for 2019: €17.7 million). Expenditure was recorded in the amount of €15.9 million (for 2019: €16.3 million), resulting in an excess of income over expenditure in the amount of €0.9 million (2019: €1.4 million).

Consequently, the closing balance of the special account for programme support costs, i.e. the level of the operating reserve, on a modified cash basis, was €22.4 million, compared with an opening balance of €21.6 million, including a statutory operating reserve of €3.0 million. Through cost recovery, the Organization generated €2.4 million in 2020, which offset the budgetary gap for the year.

10. Technical cooperation delivery for the year 2020, as measured under IPSAS, amounted to €145.8 million in expenditure, compared to €167.7 million in 2019. More information on UNIDO's technical cooperation services is available in the *Annual Report of UNIDO 2020* (PBC.37/2, IDB.49/2).

11. The healthy cash balance of €359.2 million for technical cooperation implementation augurs well for the Organization. However, in respect of the regular budget, non- or delayed payment of assessed contributions inhibits the implementation of approved regular budget programmes. General Conference decision GC.18/Dec.13, which approved the withdrawal from the Working Capital Fund, partially compensated for late payments during 2020.

Governance structure

12. As prescribed in its Constitution, UNIDO has three principal organs: the General Conference; the Industrial Development Board and the Secretariat. In addition, a Programme and Budget Committee was established to assist the Board in the preparation and examination of the programme of work, the regular budget and the operational budget, as well as other financial matters pertaining to the Organization. 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 Industrial Development Board and the Programme and Budget Committee meet once a 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 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 and further enhanced by enlarging the AAC's mandate to also include the evaluation and investigation functions through Board decision IDB.48/Dec.5. With the same decision, the Board adopted new terms of reference for the AAC, which also reflect the name change to "Oversight Advisory Committee (OAC)", among others. In addition to complying with international best practices, the OAC enhances transparency in financial and oversight reporting to the policymaking organs of UNIDO. In line with Board decisions IDB.44/Dec.3 and IDB.44/Dec.4, as well as the revised Charter of the Office of Evaluation and Internal Oversight (EIO), as approved by the Board in decision IDB.48/Dec.10 and promulgated in DGB/2020/11, both the Office of Evaluation and Internal Oversight and the Oversight Advisory Committee report on their activities to the Industrial Development Board.

Conclusion

14. The **socio-economic impacts** of the COVID-19 pandemic are expected to be far-reaching in terms of income losses and unemployment, with vulnerable actors and sectors around the globe facing the highest risks. Small and medium-sized enterprises, the self-employed and daily wage earners, particularly in the informal sector, as well as women and their businesses, risk to be hit the hardest. UNIDO's inclusive and sustainable industrial development (ISID) mandate is directly relevant to support **inclusive and sustainable economic recovery** of developing countries and their productive sectors. In this regard, UNIDO is well-positioned to enhance its efforts and to work with Member States and United Nations-system organizations to support developing countries to first respond to the crisis, and then recover better, building more equal, sustainable and resilient economies through ISID.

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, as well as 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 2020**

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]

LI Yong
Director General

[Signed]

George Perera
Director, Department of Finance

Vienna, 25 March 2021

UNIDO**Statement 1: Statement of financial position as at 31 December 2020***(Thousands of euros)*

	Note	31 December 2020	31 December 2019 (restated)
		€ '000	€ '000
ASSETS			
Current assets			
Cash and cash equivalents	2,22	438,465	445,203
Accounts receivable (non-exchange transactions)	3,22	180,561	212,653
Receivables from exchange transactions	3	3,562	4,716
Inventory	4	800	793
Other current assets	5	26,955	24,333
Total current assets		650,343	687,698
Non-current assets			
Accounts receivable (non-exchange transactions)	3,22	30,304	57,834
Property, plant and equipment	7	60,952	63,526
Intangible assets	8	646	769
Other non-current assets	9	1,761	1,842
Total non-current assets		93,663	123,971
TOTAL ASSETS		744,006	811,669
LIABILITIES			
Current liabilities			
Accounts payable (exchange transactions)	10,22	12,624	13,903
Employee benefits	11	3,605	3,203
Transfers payable (non-exchange transactions)	10	22,964	31,013
Advance receipts and deferred income	12,22	59,970	64,668
Other current and financial liabilities	13,22	15,713	17,795
Total current liabilities		114,876	130,582
Non-current liabilities			
Employee benefits	11	251,538	233,900
Other non-current liabilities	13,22	31,168	31,569
Total non-current liabilities		282,706	265,469
TOTAL LIABILITIES		397,582	396,051
NET ASSETS			
Accumulated surpluses/(deficits) and fund balances	14	326,472	395,445
Reserves	15	19,952	20,173
TOTAL NET ASSETS		346,424	415,618
TOTAL LIABILITIES AND NET ASSETS		744,006	811,669

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

UNIDO

Statement 2: Statement of financial performance for the year ended 31 December 2020
(Thousands of euros)

	Note	31 December 2020	31 December 2019
		€ '000	€ '000
REVENUE			
Assessed contributions	16	69,462	68,363
Voluntary contributions	16	123,652	146,619
Investment revenue	16	578	431
Revenue producing activities	16	20,638	21,539
Other income	16	3,147	2,905
TOTAL REVENUE		217,477	239,857
EXPENDITURE			
Personnel costs and benefits	17	123,357	130,607
Operational costs	17	31,161	40,443
Contractual services	17	53,569	69,116
TC equipment expensed	17	15,519	10,968
Depreciation and amortization	17	7,816	8,249
Other expenses	17	487	2,117
TOTAL EXPENDITURE		231,909	261,500
Operating (Deficit)/Surplus		(14,432)	(21,643)
Currency translation (losses)/gains	17	(41,851)	8,000
(DEFICIT)/SURPLUS FOR THE FINANCIAL PERIOD		(56,283)	(13,643)

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

UNIDO**Statement 3: Statement of changes in net assets for the year ended 31 December 2020**
(Thousands of euros)

	<i>Note</i>	Accumulated surplus/ (deficit)	Reserves	Total net assets
<i>€ '000</i>				
Net assets as at 31 December 2018 (restated)		391,763	17,057	408,820
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities		26,314	-	26,314
Transfer (to)/from provision for delayed contribution		(879)	-	(879)
Transfer to/(from) reserves		-	3,116	3,116
Other movements recognized directly in net assets		48		48
Net movements recognized directly in net assets		25,483	3,116	28,599
Credits to Member States		(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 as at 31 December 2019	14,15	395,445	20,173	415,618
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities	11,14	(10,702)	-	(10,702)
Transfer (to)/from provision for delayed contribution	14	(1,241)	-	(1,241)
Transfer to/(from) reserves	15	-	(221)	(221)
Other movements recognized directly in net assets	14	7	-	7
Net movements recognized directly in net assets	14,15	(11,936)	(221)	(12,157)
Credits to Member States	14,15	(754)	-	(754)
Net surplus/(deficit) for the year		(56,283)	-	(56,283)
Total movement during the year		(68,973)	(221)	(69,194)
Net assets as at 31 December 2020		326,472	19,952	346,424

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

UNIDO

Statement 4: Cash flow statement for the year ended 31 December 2020

(Thousands of euros)

	<i>Note</i>	31 December 2020	31 December 2019 (restated)
		€ '000	€ '000
Cash flows from operating activities			
Surplus/(deficit) for the period		(56,283)	(13,643)
Unrealized foreign exchange (gains)/losses		38,471	(7,203)
Depreciation and amortization	7,8	7,816	8,249
(Increase)/decrease in credits to Member States	14	(754)	(8,158)
(Increase)/decrease in provision for contributions	14	(1,241)	(879)
Valuation gains/(losses) on employee benefit liabilities	14	(10,702)	26,314
(Increase)/decrease in inventories	4	(7)	20
(Increase)/decrease in receivables	3,22	60,776	(1,625)
(Increase)/decrease in other assets	5	(2,541)	272
Increase/(decrease) in advance receipts and deferred income	12,22	(4,698)	(2,064)
Increase/(decrease) in accounts payable	10,22	(9,328)	3,050
Increase/(decrease) in employee benefits	11	18,040	(14,063)
Increase/(decrease) in other liabilities and provisions	13	(2,483)	(1,102)
(Gains)/losses on sale of property, plant and equipment	7	11,362	9,017
Investment/interest income	16	447	(4,039)
Transfers to reserves	14,15	(221)	3,116
Other movements		7	48
Net cash flows from operating activities		48,661	(2,690)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(16,290)	(19,865)
Purchase of intangible assets	8	(222)	(808)
Proceeds from sale of PPE	7	31	6
Net cash flow from investments interest		(447)	4,039
Net cash flows from investing activities		(16,928)	(16,628)
Net increase/(decrease) in cash and cash equivalents		31,733	(19,318)
Cash and cash equivalents at beginning of the financial period		445,203	457,318
Unrealized foreign-exchange gains/(losses)		(38,471)	7,203
Cash and cash equivalents at the end of the financial period	2	438,465	445,203

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

UNIDO

**Statement 5: Statement of comparison of budget and actual amounts for the year ended
31 December 2020***(Thousands of euros)*

Regular budget	Note	Original budget	Final budget	Actuals on comparable basis	Balance
<i>€ '000</i>					
Income					
Assessed contributions	16	68,666	69,462	69,462	-
Regional programme		1,209	1,209	141	1,068
Miscellaneous income		1,368	1,368	1,130	238
Total income		71,243	72,039	70,733	1,306
Cost component					
Staff costs		46,700	46,700	44,170	2,530
Official travel		1,087	1,087	130	957
Operating costs		15,230	15,230	12,799	2,431
Information and communication technology		3,601	3,601	2,422	1,179
Regular programme of technical cooperation, and special resources for Africa		4,625	4,625	4,625	-
Total costs		71,243	71,243	64,146	7,097
Balance for the period		-	796	6,587	(5,791)
Operational budget					
Operational budget		Original budget	Final budget	Actuals on comparable basis	Balance
<i>€ '000</i>					
Income					
Support costs income		19,117	19,117	16,832	2,285
Miscellaneous income		138	138	1,632	(1,494)
Total income		19,255	19,255	18,464	791
Cost component					
Staff costs		17,525	17,525	15,735	1,790
Official travel		1,559	1,559	89	1,470
Operating costs		171	171	56	115
Total costs		19,255	19,255	15,880	3,375
Balance for the period		-	-	2,584	(2,584)

Total	Note	Original budget	Final budget	Actuals on comparable basis	Balance
				€ '000	
Income					
Assessed contributions		68,666	69,462	69,462	-
Support costs income		19,117	19,117	16,832	2,285
Regional programme		1,209	1,209	141	1,068
Miscellaneous income		1,506	1,506	2,762	(1,256)
Total income		90,498	91,294	89,197	2,097
Cost component					
Staff costs		64,225	64,225	59,905	4,320
Official travel		2,646	2,646	219	2,427
Operating costs		15,401	15,401	12,855	2,546
Information and communication technology		3,601	3,601	2,422	1,179
Regular programme of technical cooperation, and special resources for Africa		4,625	4,625	4,625	-
Total costs	18	90,498	90,498	80,026	10,472
Balance for the period		-	796	9,171	(8,375)

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

Notes to the financial statements

Note 1. Accounting policies

Reporting entity

1.1 The United Nations Industrial Development Organization (UNIDO) was established in 1966 by General Assembly resolution 2152 (XXI) and became a specialized agency of the United Nations in 1985 with the entry into force of its Constitution. The primary objective of the Organization is the promotion of sustainable industrial development in developing countries and countries with economies in transition. The Organization currently has 170 Member States (2019: 170).

1.2 The Organization has three principal organs: the General Conference, the Industrial Development Board and the Secretariat. In addition, a Programme and Budget Committee was established to assist the Board. The functions of these bodies 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 (48 in 2019), comprising regional hubs and country offices covering over 150 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 (IPSAS). Accordingly, the financial statements are prepared on the accrual basis of accounting. If IPSAS is silent concerning any specific matter, the appropriate International Financial Reporting Standards and International Accounting Standards are applied.

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

1.10 These financial statements include the financial statements of UNIDO and the joint operations of the Vienna International Centre and Major Repair and Replacement Fund.

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 2020 and ending on 31 December 2020.

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 publicly available United Nations operational rate of exchange (UNROE) 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 and credit 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 rendering 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, including future instalments for which UNIDO does not have an enforceable claim, are recognized as revenue when received, or when an enforceable claim is made.

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 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.
- Country risk: Project implementation in over 150 countries faces challenges due to potential changes in geo-political arrangements that need to be considered at project planning stage.
- Technological risk: Deployment of new technologies affects project activities and impacts structure of the projects and project planning.

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:

<i>Class</i>	<i>Estimated useful life (years)</i>
Vehicles	3-10
Communications and information technology equipment	3-9

<i>Class</i>	<i>Estimated useful life (years)</i>
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:

<i>Class</i>	<i>Estimated useful life (years)</i>
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 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 a cost-recovery basis.

1.44 Since Buildings Management Services (BMS) is an internal operation of UNIDO, the Organization recognizes fully BMS' revenue, expenses, assets and liabilities.

1.45 For the joint operation of Vienna International Centre buildings, along with the Major Repairs and Replacement Fund which finances their major repairs, UNIDO recognizes its share of assets, liabilities, income and expenses. Arrangements with services provided by other Vienna-based organizations are expensed when the related services are rendered.

Liabilities

Accounts payable and other financial liabilities

1.46 Financial liabilities, including accounts payable, are initially recognized at fair value and subsequently measured at amortized cost. Financial liabilities and accounts payable with a duration of less than 12 months are recognized at their nominal value, which best estimates the amount required to settle the obligation as at the reporting date.

Employee benefit liabilities

Short-term employee benefits

1.47 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

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

1.49 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.

1.50 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.

1.51 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.

Other long-term employee benefits

1.52 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.

United Nations Joint Staff Pension Fund

1.53 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.

1.54 The Fund 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 IPSAS 39. 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

1.55 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.

1.56 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 19 “Provisions, contingent liabilities and contingent assets”, are disclosed.

Fund accounting and segment reporting

1.57 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.

1.58 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

1.59 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 24 “Presentation of Budget Information in Financial Statements”) is presented on the same basis of accounting, classification and period as the approved budget.

1.60 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.

1.61 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

1.62 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.

1.63 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

1.64 The IPSAS Board has published Collective and Individual Services (Amendments to IPSAS 19 “Provisions, contingent liabilities and contingent assets”). UNIDO will be adopting the new standards, as required, effective 1 January 2023 and believes that the adoption of this standard will have no impact on the financial statements.

Note 2. Cash and cash equivalents

	Note	31 December 2020	31 December 2019 (restated)
<i>(thousands of euros)</i>			
Cash and cash equivalents			
Cash in the bank and on hand	2.1	90,903	75,508
Short-term deposits	2.4	344,483	366,275
Cash and cash equivalents held in field offices	2.5	3,079	3,420
Total cash and cash equivalents		438,465	445,203

2.1 Total cash and cash equivalents contain restrictions on their availability for use, depending upon the purpose they relate to. Cash restricted for the use for technical cooperation activities amounts to €359,155 (2019: €360,635), for Buildings Management Service activities €37,147 (2019: €34,648) and for the Major Repair and Replacement Fund €7,150 (2019: €7,662)

2.2 Cash and cash equivalents include cash and term deposits equivalent to €243,941 (2019: €266,207) held in currencies other than the euro. The term deposits can be withdrawn before maturity at nominal value.

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 €2,241 (2019: €2,399) 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 0.03 per cent and 1.00 per cent for holdings in euros and United States dollars respectively (2019: 0.10 per cent and 2.84 per cent).

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

2.6 More than 98 per cent of cash and cash equivalents are held in rated financial institutions.

Note 3. Accounts receivable

	<i>31 December 2020</i>	<i>31 December 2019 (restated)</i>
	<i>(thousands of euros)</i>	
Current		
Receivable from non-exchange transactions		
Voluntary contributions receivable	169,229	202,787
Due from Member States: assessed contributions	91,394	87,114
VAT and other taxes recoverable	2,812	3,977
Due from Member States: other	28	8
Total accounts receivable before allowance	263,463	293,886
Allowance for doubtful accounts	(82,902)	(81,233)
Net accounts receivable from non-exchange transactions	180,561	212,653
	<i>31 December 2020</i>	<i>31 December 2019</i>
	<i>(thousands of euros)</i>	
Receivable from exchange transactions		
Receivables from United Nations organizations	2,533	3,470
Receivables: other	1,717	1,934
Allowance for doubtful accounts	(688)	(688)
Net accounts receivable from exchange transactions	3,562	4,716
	<i>31 December 2020</i>	<i>31 December 2019</i>
	<i>(thousands of euros)</i>	
Non-current		
Receivable from non-exchange transactions		
Voluntary contributions receivable	30,184	57,449
Due from Member States: assessed contributions	1,111	1,877
Allowance for doubtful accounts: assessed contributions	(991)	(1,492)
Total receivable from non-exchange transactions	30,304	57,834

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):

	<i>2020</i>	<i>2019</i>
	<i>(percentage)</i>	
<i>Length of time contributions were outstanding</i>		
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:

	<i>31 December 2020</i>	<i>31 December 2019</i>
	<i>(thousands of euros)</i>	
Allowance for bad and doubtful accounts at the beginning of the year	80,781	79,903
Change during the year	1,241	879
Allowance for bad and doubtful accounts at the end of the year	82,022	80,782

3.3 Total allowances for bad and doubtful accounts of €84,581 (2019: €83,414) consist of €82,022 (2019: €80,781) against assessed contributions receivable and €2,559 against other receivables and tax claims (2019: €2,633).

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:

	<i>31 December 2020</i>		<i>31 December 2019</i>	
	<i>(thousands of euros)</i>	<i>(percentage)</i>	<i>(thousands of euros)</i>	<i>(percentage)</i>
Age				
1-2 years	13,215	14.3	10,108	11.4
3-4 years	2,361	2.6	2,483	2.8
5-6 years	1,440	1.6	704	0.8
7 years and more	75,489	81.5	75,696	85.0
Total contributions receivable before allowance	92,505	100.0	88,991	100.0

Note 4. Inventories

	<i>31 December 2020</i>	<i>31 December 2019</i>
	<i>(thousands of euros)</i>	
Opening inventory	793	813
Purchased during the year	287	326
Total inventory available	1,080	1,139
Less: consumption	(280)	(338)
Less: write-up/(down)	-	(8)
Closing inventory	800	793

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

Note 5. Other current assets

	<i>Note</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
		<i>(thousands of euros)</i>	
Advances to vendors	<i>5.1</i>	23,284	19,721
Advances to staff	<i>5.2</i>	2,118	2,345

	Note	31 December 2020	31 December 2019
(thousands of euros)			
E-IOV items	5.3	1,385	1,396
Other		168	871
Total other assets		26,955	24,333

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.

Note 6. Joint arrangements and other common services

6.1 The Vienna-based organizations have an agreement to share the costs, in excess of any external income, of common services rendered by each organization. Such services include:

- Joint operations comprising the Vienna International Centre and Major Repair and Replacement Fund, recognized by UNIDO in its share in net assets;
- Internal operations that include Buildings Management Services;
- Other common services, which include catering, Commissary, medical, security and others. The share in net assets is not recognized by UNIDO since the benefits from these services do not flow to the Organization.

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:

2020	14.516 per cent
2019	14.098 per cent

Joint operations

Vienna International Centre

6.3 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.

6.4 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.

6.5 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.

The below table summarizes Vienna International Centre financial information, comprised of the full amount of Vienna International Centre assets, liabilities, income and expenses. UNIDO recognizes its own share of the presented Vienna International Centre financial information.

	<i>31 December 2020</i> <i>(thousands of euros)</i>	<i>31 December 2019</i> <i>(thousands of euros)</i>
Income	15,201	15,537
Expenses	15,201	15,537
Assets, non-current	224,095	231,185
Liabilities, non-current	224,095	231,185
Net assets	-	-

Major Repair and Replacement Fund

6.6 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 acting as an operator on behalf of the Vienna-based organizations.

6.7 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.

the following table summarizes Major Repair and Replacement Fund financial information. UNIDO recognizes its share in net assets of the Major Repair and Replacement Fund as part of other non-current assets.

	<i>31 December 2020</i> <i>(thousands of euros)</i>	<i>31 December 2019</i> <i>(thousands of euros)</i>
Income	4,951	4,770
Expenses	6,499	2,335
Assets, current	15,344	15,272
Liabilities, current	2,244	624
Net assets	13,100	14,648

Internal operation

Buildings Management Services

6.8 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.

6.9 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.

The table below presents BMS financial information. Buildings Management Services has no legal status of its own. An assets and liabilities are fully included in UNIDO's financial statements.

	<i>31 December 2020</i>	<i>31 December 2019</i>
	<i>(thousands of euros)</i>	<i>(thousands of euros)</i>
Income	23,983	24,012
Expenses	25,057	26,539
Assets, current	42,246	40,862
Assets, non-current	1,637	1,380
Liabilities, current	18,835	17,650
Liabilities, non-current	30,576	27,199
Net assets	(5,528)	(2,607)

Other common services

Catering Service

6.10 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, operated by the current catering operator since 2014. 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.

6.11 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.

6.12 The Catering Service has no legal personality of its own. Its assets and liabilities are held in the legal name of UNIDO, net assets in 2020 constituted €2,080 (2019: €2,068).

Commissary

6.13 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.

6.14 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.

6.15 The Commissary has no legal personality of its own; its assets and liabilities are held in the legal name of IAEA.

Others

6.16 Costs related to other common services, such as security and medical services, are expensed on a cost reimbursement basis. The amounts expensed during the year were €2,061 and €242 (2019: €2,035 and €221), respectively.

Note 7. Property, plant and equipment

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Information and communications technologies equipment</i>	<i>Vehicles</i>	<i>Machinery</i>	<i>Total</i>
<i>(thousands of euros)</i>						
Cost						
At 31 December 2018	70,753	2,682	15,684	3,831	27,749	120,699
Additions	392	734	1,622	1,181	15,713	19,642
Disposals/transfers	(221)	(1,082)	(1,103)	(1,133)	(9,211)	(12,750)
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	1,167	465	4,124	7,911
Disposals/transfers	-	(332)	(830)	(518)	(2,604)	(4,284)
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	2,828	1,621	20,118	60,261
At 31 December 2019	32,598	1,096	3,010	1,722	25,100	63,526

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Information and communications technologies equipment</i>	<i>Vehicles</i>	<i>Machinery</i>	<i>Total</i>
<i>(thousands of euros)</i>						
Cost						
At 31 December 2019	70,924	2,334	16,203	3,879	34,251	127,591
Additions	1,009	1,341	1,648	1,484	8,813	14,295
Impact of change in VIC cost-sharing ratio	1,995	-	-	-	-	1,995
Disposals/transfers	-	(315)	(1,923)	(1,102)	(13,008)	(16,348)
At 31 December 2020	73,928	3,360	15,928	4,261	30,056	127,533
Accumulated depreciation						
At 31 December 2019	38,326	1,238	13,193	2,157	9,151	64,065
Depreciation charge during the year	1,953	327	1,197	439	3,720	7,636
Impact of change in VIC cost-sharing ratio	1,118	-	-	-	-	1,118
Disposals/transfers	-	(94)	(1,092)	(342)	(4,710)	(6,238)
At 31 December 2020	41,397	1,471	13,298	2,254	8,161	66,581
Net book value						
At 31 December 2019	32,598	1,096	3,010	1,722	25,100	63,526
At 31 December 2020	32,531	1,889	2,630	2,007	21,895	60,952

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 2020, the review 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 €6,198 (2019: €6,959) at the period end.

7.4 The asset class Buildings includes assets under construction of €267 (2019: €83), not yet put into operation.

Note 8. Intangible assets

	<i>Software acquired externally</i>	<i>Internally developed software</i>	<i>Total</i>
<i>(thousands of euros)</i>			
Costs			
At 31 December 2018	1,481	5,368	6,849
Additions	416	81	497
Disposals/transfers	(66)	-	(66)
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	221	117	338
Disposals/transfers	(43)	-	(43)
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
	<i>Software acquired externally</i>	<i>Internally developed software</i>	<i>Total</i>
<i>(thousands of euros)</i>			
Costs			
At 31 December 2019	1,831	5,449	7,280
Additions	224	-	224
Disposals/transfers	(266)	(45)	(311)
At 31 December 2020	1,789	5,404	7,193
Accumulated amortization			
At 31 December 2019	1,150	5,361	6,511
Amortization charge during the year	175	5	180
Disposals/transfers	(144)	-	(144)
At 31 December 2020	1,181	5,366	6,547
Net book value			
At 31 December 2019	681	88	769
At 31 December 2020	608	38	646

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 2020, the review indicated no impairments.

Note 9. Non-current assets

	31 December 2020	31 December 2019
	(thousands of euros)	
Initial advance in Commissary	809	809
Advance to the Major Repair and Replacement fund	951	1,032
Other non-current assets	1	1
Total, non-current assets	1,761	1,842

Note 10. Accounts payable

	Note	31 December 2020	31 December 2019
		(thousands of euros)	
Due to Member States	10.1	9,310	16,022
Payables to donors	10.2	13,654	14,991
Due to Vienna-based organizations	10.3	9,105	9,104
Payables to vendors	10.4	3,519	4,799
Total accounts payable		35,588	44,916

	31 December 2020	31 December 2019
	(thousands of euros)	
Composition:		
Payables from exchange transactions	12,624	13,903
Payables from non-exchange transactions	22,964	31,013
Total accounts payable	35,588	44,916

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 2020		31 December 2019	
	Actuarial valuation	UNIDO valuation	Total	
<i>(thousands of euros)</i>				
Short-term employee benefits		3,605	3,605	3,203
Post-employment benefits	244,471		244,471	227,170
Other long-term employee benefits	7,067		7,067	6,730
Total employee benefit liabilities	251,538	3,605	255,143	237,103

	31 December 2020		31 December 2019	
<i>(thousands of euros)</i>				
Composition:				
Current			3,605	3,203
Non-current			251,538	233,900
Total employee benefit liabilities			255,143	237,103

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 2020, total employee benefit liabilities amounted to €255,143 (2019: €237,103), of which €251,538 (2019: €233,900) was calculated by the actuaries and €3,605 (2019: €3,203) 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 2020. 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 2020:

- *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 a head count-weighted mortality table in the 2017 actuarial valuation of the UNJSPF, together with rates for withdrawal and retirement.
- *Discount rate.* 0.65 per cent (2019: 1.21 per cent) for after-service health insurance and 0.22 per cent (2019: 0.53 per cent) for repatriation, annual leave and end-of-service allowance.
- *Medical cost trend rates.* 3.25 per cent for Euro, 3.65 percent for United States Dollar (2019: 3,65 per cent (Euro) 3,85 per cent (United States Dollar)).
- *Rate of salary increase.* 2.00 per cent (2019: 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 (2019: 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:

	<i>1 percentage point increase</i>	<i>1 percentage point decrease</i>
	<i>(thousands of euros)</i>	
Effect on year-end accumulated after-service health benefits obligation	58,833	(43,683)
Effect on combined service and interest cost	3,813	(2,658)

11.12 Assumed discount rates have a significant effect on the amounts recognized in the statement of financial performance. A 1 percentage point increase/decrease of the discount rate would have the following effects:

	<i>1 percentage point increase</i>	<i>1 percentage point decrease</i>
	<i>(thousands of euros)</i>	
Effect on year-end accumulated after-service health benefits obligation	(44,276)	61,316
Effect on combined service and interest cost	(863)	1,035

Reconciliation of defined benefit obligation

	<i>After-service health insurance</i>	<i>Repatriation benefits</i>	<i>Annual leave</i>	<i>End-of-service allowance</i>	<i>Total</i>
	<i>(thousands of euros)</i>				
Defined benefit obligation at 31 December 2019	206,250	10,483	6,730	10,437	233,900
Service costs	7,693	430	612	587	9,322
Interest costs	2,515	51	35	54	2,655
Actual gross benefit payments	(3,621)	(732)	(365)	(323)	(5,041)
Actuarial (gains) / losses arising from third party funded activities	119	23	5	-	147
Actuarial (gains) / losses arising from changes in demographic assumptions	(495)	(8)	(5)	18	(490)
Actuarial (gains) / losses arising from experience adjustments	18,602	396	280	53	19,331
Actuarial (gains) / losses arising from changes in financial assumptions	8,473	317	193	353	9,336
The effect (gain) / losses of changes in foreign exchange rates	(16,487)	(718)	(417)	-	(17,622)
Defined benefit obligation at 31 December 2020	223,049	10,242	7,068	11,179	251,538

11.13 It is expected that the contribution to the after-service health insurance plan will remain at the same level in 2020.

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

United Nations Joint Staff Pension Fund

11.15 UNIDO's financial obligation to the 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.

11.16 In 2020, UNIDO's contribution payments to the UNJSPF amounted to €11,218 (2019: €9,669). Expected contributions due in 2021 are approximately at the same level as in the current year.

11.17 The actuarial valuations are undertaken every two years, with the latest completed valuation as of 31 December 2019. The consulting actuary concluded that there was no requirement, as of 31 December 2019, for deficiency payments under Article 26 of the Regulations of the UNJSPF.

11.18 The United Nations Board of Auditors carries out an annual audit of the Fund and reports to the Pension Board and to the United Nations General Assembly on the audit every year. The Fund publishes quarterly reports on its investments and these can be viewed by visiting the Fund website at www.unjspf.org.

Note 12. Advance receipts and deferred income

	Note	31 December 2020	31 December 2019 (restated)
<i>(thousands of euros)</i>			
Advances from non-exchange transactions			
Performance obligation for voluntary contributions agreements	12.1	29,777	26,144
Voluntary contributions in advance	12.2	25,653	34,477
Major Repair and Replacement Fund deferral	12.3	951	1,033
Assessed contributions in advance		440	533
Advances from non-exchange transactions		56,821	62,187
Advances from exchange transactions			
Advances to BMS from Vienna-based organizations		3,149	2,481
Total advance receipts and deferred income		59,970	64,668

12.1 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.

12.2 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 Major Repair and Replacement Fund deferral represents UNIDO's share in net assets that is, in substance, awaiting release for services to be delivered in the future.

Note 13. Other liabilities

	Note	31 December 2020	31 December 2019 (restated)
<i>(thousands of euros)</i>			
Other current liabilities			
Accruals for goods/services received not invoiced		13,696	14,345
Other liabilities	13.1	2,017	3,450
Total other current liabilities		15,713	17,795
Other non-current liabilities			
Deferred income – Vienna International Centre performance obligation	13.2	30,844	31,236
Long-term guarantees – bank/rent deposit		324	333
Total other non-current liabilities		31,168	31,569

13.1 Other liabilities mostly pertain to UNJSPF remitted payments.

13.2 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 includes:

	2020	2019
<i>(thousands of euros)</i>		
VIC net book value at the beginning of the period	32,592	34,259
Provision for undepreciated VIC improvements	(1,356)	(1,259)
Additions to the VIC buildings	3,026	283

	2020	2019
	<i>(thousands of euros)</i>	
VIC buildings depreciation	(1,953)	(1,950)
Change in cost-sharing ratio	(1,136)	0
Change in book value of self-financed leasehold improvements	(329)	(97)
VIC performance obligation at the end of the period	30,844	31,236

Note 14. Fund balances

	<i>Regular budget funds</i>			<i>Technical cooperation funds</i>	<i>Other funds</i>	<i>Total</i>
	<i>General fund</i>	<i>Regular programme of technical cooperation</i>	<i>Working Capital Fund</i>			
	<i>(thousands of euros)</i>					
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
Consolidation 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
Net surplus/(deficit) for the year	(2,037)	1,376	-	(55,020)	(602)	(56,283)
Subtotal	(173,061)	6,373	7,423	506,861	(8,434)	339,162
Movements during year						
Credits to Member States	(754)	-	-	-	-	(754)
Transfer (to)/from provision for delayed contribution	(1,241)	-	-	-	-	(1,241)
Actuarial gains/(losses)	(4,634)	-	-	(484)	(5,584)	(10,702)
Other adjustments	7	-	-	-	-	7
Total movements during year	(6,622)	-	-	(484)	(5,584)	(12,690)
Balance as at 31 December 2020	(179,683)	6,373	7,423	506,377	(14,018)	326,472

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 €251,538 (2019: €233,900).

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. During 2020, an amount of €2 million was withdrawn from the Fund to partially finance the regular budget due to the late payment of assessed contributions.

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 2020	Movements during the year	Net surplus/(deficit) for the year	31 December 2020
<i>(thousands of euros)</i>					
Computer Model for Feasibility Analysis and Reporting fund	14.5	141	-	65	206
Operational budget	14.6	(8,932)	(3,736)	413	(12,255)
Fund for the Programme for Change and Organizational Renewal	14.7	33	-	(22)	11
Special Account of Voluntary Contributions for Core Activities	14.8	201	-	69	270
Major Capital Investment Fund	14.9	2,493	-	(65)	2,428
Regular budget supplementary appropriation: Vienna International Centre security	14.10	575	-	-	575
Sales publication revolving fund	14.11	264	-	11	275
Buildings Management Services	14.12	(2,607)	(1,848)	(1,073)	(5,528)
Total		(7,832)	(5,584)	(602)	(14,018)

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 €34,222 (2019: €28,398).

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

14.8 At its forty-third session, the Industrial Development Board took note of the establishment of the Special Account of Voluntary Contributions for Core Activities (SAVCCA) (decision IDB.43/Dec.6, paragraph (i)). The

purpose of the SAVCCA is to facilitate the receipt, management, and use of voluntary contributions for core activities that cannot be fully funded from the regular budget due to funding constraints.

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

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

14.11 The sales publication revolving fund was established in the biennium 1998–1999, as contained in document GC.7/21 and pursuant to decision GC.7/Dec.16, to support longer range planning of publication activities, including promotion, marketing and 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 2020	Movement during the year	31 December 2020
<i>(thousands of euros)</i>				
Project personnel separation reserve	15.1	1,989	136	2,125
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	4,770	423	5,193
Reserve for exchange rate fluctuations	15.6	4,391	(780)	3,611
Total		20,173	(221)	19,952

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 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 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 2020 was €1,960 (2019: €1,960). 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, was €1,651 (2019: €2,431).

Note 16. Revenue

	<i>Note</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
<i>(thousands of euros)</i>			
Assessed contributions	16.1	69,462	68,363
Voluntary contributions			
For technical cooperation		123,415	146,003
For support to regular activities		237	616
Subtotal, voluntary contributions	16.2	123,652	146,619
Investment revenue	16.3	578	431
Revenue producing activities			
Contribution to the Buildings Management Services	16.4	19,916	19,820
Sales publications		83	70
Computer Model for Feasibility Analysis and Reporting		86	86
Other sales		553	1,563
Subtotal, revenue producing activities	16.5	20,638	21,539
Miscellaneous income			
Transfer to reserve for exchange fluctuation	16.6	-	(191)
Release of performance obligation for the Vienna International Centre	16.7	1,950	1,892
Contribution in kind – Vienna International Centre land	16.8	253	240
Other miscellaneous income	16.9	944	964
Subtotal, miscellaneous income		3,147	2,905
TOTAL REVENUE		217,477	239,857

16.1 The General Conference approved an amount of €138,925 for the regular budget for the biennium 2020–2021 (decision GC.18/Dec.14), which is financed from assessed contributions by Member States. Accordingly, the amount of €69,462 represents one-half of the biennial amount assessed for 2020. 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. In case an agreement includes several instalments, voluntary contributions are recognized for the instalment that is binding.

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 €6,880 (2019: €4,012) were received mainly in support of UNIDO projects and field office operations and are measured at fair value. In accordance with IPSAS 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 2020	31 December 2019
	<i>(thousands of euros)</i>	
Contributions of services in kind for the use of:		
Personnel services	3,120	1,004
Office space	1,458	1,220
Machinery, tools	957	1,052
Communications and information technology equipment	451	17
Other	894	719
Total	6,880	4,012

Note 17. Expenses

	Note	31 December 2020	31 December 2019)
		<i>(thousands of euros)</i>	
Staff salaries		51,231	44,308
Staff entitlements and allowances		31,219	35,262
Temporary assistance		1,140	1,006
Subtotal, staff costs		83,590	80,576
International consultants		20,800	29,317
National experts		14,993	14,885
Administrative support and other consultancies		3,974	5,829
Subtotal, project personnel and consultancies		39,767	50,031
Subtotal, personnel costs and benefits	17.1	123,357	130,607
Regular travel		120	1,483
Project travel		1,867	9,628
Rental, utilities and maintenance		17,478	18,408
Information technology, communications and		2,826	3,191
Supplies and consumables		2,528	2,723
Other operating costs		6,342	5,010
Subtotal, operating costs	17.2	31,161	40,443
Contractual services	17.3	53,569	69,116
Equipment expensed	17.4	15,519	10,968
Depreciation and amortization	7,8	7,816	8,249
Other expenses		487	2,117
TOTAL EXPENDITURE		231,909	261,500
Currency translation losses / (gains)	17.5	41,851	(8,000)

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, and low value assets of €929 (2019: €1,111).

17.5 Currency translation differences, primarily arising from revaluation of non-euro bank balances, investments, assets and liabilities at the end of the period are mainly a consequence of a decrease in the year-end dollar/euro exchange rate from 0.896 in 2019 to 0.815 in 2020.

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 2020 is presented below:

	<i>Operating</i>	<i>Investing</i>	<i>Total</i>
	<i>(thousands of euros)</i>		
Surplus of income (statement 5)	8,375	-	8,375
Basis differences	(10,556)	(548)	(11,104)
Presentation differences	(4,873)	-	(4,873)
Entity differences	55,715	(16,380)	39,335
Actual amount in the statement of cash flow (statement 4)	48,661	(16,928)	31,733

18.7 Budget amounts have been classified based on the nature of expenses in accordance with the programme and budgets approved for the biennium 2020–2021 by the General Conference at its eighteenth session (GC.18/Dec.14) for the 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. The usual expenditure patterns of certain expenses were impacted due to the COVID-19 pandemic during 2020, which resulted in savings.

Staff costs

18.9 Regular budget staff costs for Professional and General Service posts were utilized at 94.6 per cent, which exceeds the consumption pattern for the first year of the biennium. Due to the uncertainty in the payment of assessed

contributions by Member States, the vacancy factor in 2020 was maintained at a higher level than budgeted. Compared to the first year of the prior biennium the regular budget vacancy rate in 2020 decreased to 15.5 per cent for professional and higher categories (16.7 per cent in 2018) and 5.1 per cent for general service (in 2018, 8.0 per cent), due to multiple staff appointments during the year.

Official travel

18.10 The budget for official travel was underutilized by €1.0 million of the final budget in 2020. This was due primarily to savings realized through targeted efforts to use information and communications technology instead of physical travel to conduct business due to the COVID-19 pandemic.

Operating costs

18.11 Savings in operating costs in the amount of €2.4 million were achieved due to savings in field operations of €1.9 million. In addition, savings of €0.5 million were achieved due to sessions of policymaking organs being held largely in a virtual format as well as efficient use of public information services, translation, interpretation and document production. It should however be noted that certain services and payments, particularly in the field, have been postponed until 2021 due to the COVID-19 pandemic.

Information and communications technology

18.12 The underutilization of €1.2 million in resources for information and communications technology is mainly attributable to a concerted effort at technological efficiency and seeking alternative arrangements with 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.

Note 19. Segment reporting

A: Statement of financial position by segment as at 31 December 2020

	<i>Regular budget activities</i>	<i>Technical cooperation</i>	<i>Other activities and special services</i>	<i>Eliminations</i>	<i>Total UNIDO</i>
	<i>(thousands of euros)</i>				
ASSETS					
Current assets					
Cash and cash equivalents	12,059	359,155	67,251	-	438,465
Accounts receivable (non-exchange transactions)	10,701	169,554	306	-	180,561
Receivables from exchange	(121)	352	3,331	-	3,562
Inventories	-	-	800	-	800
Other current assets	4,943	25,225	463	(3,676)	26,955
Subtotal, current assets	27,582	554,286	72,151	(3,676)	650,343
Non-current assets					
Receivables	120	30,184	-	-	30,304
Property, plant and equipment	34,297	24,939	1,716	-	60,952
Intangible assets	283	49	314	-	646
Other non-current assets	1,760	1	-	-	1,761
Subtotal, non-current assets	36,460	55,173	2,030	-	93,663
TOTAL ASSETS	64,042	609,459	74,181	(3,676)	744,006
LIABILITIES					
Current liabilities					

	<i>Regular budget activities</i>	<i>Technical cooperation</i>	<i>Other activities and special services</i>	<i>Eliminations</i>	<i>Total UNIDO</i>
	<i>(thousands of euros)</i>				
Accounts payable (exchange transactions)	1,482	1,749	13,069	(3,676)	12,624
Employee benefits	3,097	332	176	-	3,605
Transfers payable (non-exchange transactions)	9,283	13,671	10	-	22,964
Advance receipts	440	55,429	4,101	-	59,970
Other current liabilities	3,304	9,441	2,968	-	15,713
Subtotal, current liabilities	17,606	80,622	20,324	(3,676)	114,876
Non-current liabilities					
Employee benefits	180,490	6,250	64,798	-	251,538
Other non-current liabilities	30,844	324	-	-	31,168
Subtotal, non-current	211,334	6,574	64,798	-	282,706
TOTAL LIABILITIES	228,940	87,196	85,122	(3,676)	397,582
NET ASSETS					
Accumulated surpluses/(deficits): fund balances	(170,222)	566,354	(13,377)	-	382,755
Current period surplus/(deficit)	(2,037)	(53,644)	(602)	-	(56,283)
Reserves	7,361	9,553	3,038	-	19,952
TOTAL NET ASSETS	(164,898)	522,263	(10,941)	-	346,424
TOTAL LIABILITIES AND NET ASSETS	64,042	609,459	74,181	(3,676)	744,006

B: Statement of financial performance by segment for the year ended 31 December 2020

	<i>Regular budget activities</i>	<i>Technical cooperation</i>	<i>Other activities and special services</i>	<i>Eliminations</i>	<i>Total UNIDO</i>
	<i>(thousands of euros)</i>				
INCOME/REVENUE					
Assessed contributions	69,462	-	-	-	69,462
Voluntary contributions	237	123,272	143	-	123,652
Investment revenue	6	554	18	-	578
Revenue producing activities	189	321	39,662	(19,534)	20,638
Other	4,344	4,116	2,896	(8,209)	3,147
TOTAL REVENUE	74,238	128,263	42,719	(27,743)	217,477
EXPENDITURE					
Personnel costs and benefits	47,530	47,566	28,261	-	123,357
Operational costs	13,632	6,518	14,595	(3,584)	31,161
Contractual services	1,700	51,714	155	-	53,569
Technical cooperation equipment expensed	136	15,294	89	-	15,519
Depreciation and amortization	2,550	4,686	580	-	7,816
Other expenses	4,633	20,025	(12)	(24,159)	487
TOTAL EXPENDITURE	70,181	145,803	43,668	(27,743)	231,909
Currency translation (losses)/gains	(6,094)	(36,104)	347	-	(41,851)

	<i>Regular budget activities</i>	<i>Technical cooperation</i>	<i>Other activities and special services</i>	<i>Eliminations</i>	<i>Total UNIDO</i>
	<i>(thousands of euros)</i>				
(DEFICIT)/ SURPLUS FOR PERIOD	(2,037)	(53,644)	(602)	-	(56,283)

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 2020, activities created inter-segment balances in the amount of €4,115, €510, €18,202 and €3,676 (2019: €4,151, €490, €17,848 and €3,477) 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.

Note 20. Commitments and contingencies

20.1 *Leases.* Operating costs include payments recognized as operating lease expenses during the year in the amount of €1,948 (2019: €1,909). 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:

	<i>Within 1 year</i>	<i>1 to 5 years</i>	<i>After 5 years</i>	<i>Total</i>
	<i>(thousands of euros)</i>			
31 December 2020	313	5	-	318
31 December 2019	335	12	-	347

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.

	<i>31 December 2020</i>	<i>31 December 2019</i>
	<i>(thousands of euros)</i>	
Regular budget	1,243	2,539
Global Environment Facility	110,399	109,644
Trust fund	46,961	34,722
Montreal Protocol on Substances that Deplete the Ozone Layer	47,505	55,231
Industrial Development Fund	9,302	7,167
Regular programme for technical cooperation	1,251	1,407
Inter-organization arrangements	781	255
Special services and other	122	367
Total commitments	217,564	211,332

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 €44 (2019: €178).

20.7 Contingent liabilities on pending cases under Appendix D of the Staff Rules for possible retroactive payment amounted to €0 (2019: €93). Contingent liabilities for other claims amounted to €308 (2019: €164).

20.8 Due to the COVID-19 pandemic, UNIDO incurred €255 in extra expenses mainly for personal protective equipment and changes for remote working arrangements. In spite of the complex situation, UNIDO did not experience a direct financial impact on 2020 operations; however, it may have an impact on future fund-raising activities and consequently slow down project implementation. At the time of the preparation of the statements, the impact, if any, cannot be reliably estimated.

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

21.1 UNIDO made ex-gratia and special claims payments during 2020 of €7 (2019: €11).

21.2 The value of property, plant and equipment written off during the year due to loss/theft amounts to €9 (2019: €11).

21.3 During 2020 UNIDO did not incur any cash losses (2019: 0).

Note 22. Related party and other executive management disclosure

Key management personnel

	<i>No. of individuals</i>	<i>Aggregate remuneration other compensations</i>	<i>Total remuneration 2020</i>	<i>Outstanding advances against entitlements 31 December 2020</i>	
<i>(thousands of euros)</i>					
Director General	1	409	106	515	-
Deputy to the Director General	1	211	-	211	-
Special Advisor to the Director General	1	223	-	223	-
Managing Directors	4	911	-	911	16

22.1 The key management personnel are the Director General, the Deputy to the Director General, the Special Advisor 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 payable on separation are reflected as part of the remuneration for those separated in the current year, but cannot be reliably quantified for the future as they depend on the years of service and actual date of separation (which could be voluntary).

22.5 Key management personnel are ordinary members of the UNJSPF.

22.6 Advances made against entitlements of key management personnel in accordance with staff rules and regulations amounted to €16 as at 31 December 2020 (2019: €11).

Note 23. Opening balances adjustments

23.1 Opening balances were restated to include adjustments which pertain to the change in recognition of UNIDO's share in the Major Repair and Replacement Fund's joint operation, in line with applicable cost-sharing

ratios, instead of the share on behalf of all Vienna-based organizations at 50 per cent, reflecting better the nature of UNIDO's control.

<i>Impact on the Statement of Financial Position</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>	<i>2018</i>
	<i>(thousands of euros)</i>		
Assets			
Cash and cash equivalent	(6,112)	(6,404)	(5,632)
Accounts receivable	(446)	(154)	(78)
Liabilities			
Advance receipts and deferrals	(5,599)	(6,290)	(5,246)
Accounts payable	(47)	(1)	(88)
Other current liabilities	(912)	(267)	(376)

23.2 Opening balances were restated to include adjustments, which pertain to the change in recognition of voluntary contributions receivable under instalment conditions, which better reflects the presentation in the financial statements, in respect to the procedure under which such agreements are administered.

<i>Impact on the Statement of Financial Position</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>	<i>2018</i>
	<i>(thousands of euros)</i>		
Current assets			
Accounts receivable (non-exchange transactions)	(80,835)	(63,093)	(36,501)
Non-current assets			
Accounts receivable (non-exchange transactions)	(107,998)	(115,660)	(66,466)
Current liabilities			
Advance receipts and deferrals	(80,835)	(63,093)	(36,501)
Non-current liabilities			
Other current liabilities	(107,998)	(115,660)	(66,466)

Note 24. Events after reporting date

24.1 The reporting date of UNIDO is 31 December 2020. At the date of the 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.