



**United Nations Industrial  
Development Organization**

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**Thirty-eighth session**  
Vienna, 21–22 June 2022  
Item 4 of the provisional agenda  
**Report of the External Auditor for 2021**

**Report of the External Auditor on the accounts of the United  
Nations Industrial Development Organization for the  
financial year 1 January to 31 December 2021**

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## Acronyms and abbreviations

<b>AC</b> Assessed contributions	<b>IT</b> Information technology
<b>ACRF</b> Accounts Chamber of the Russian Federation	<b>ITGC</b> IT general controls
<b>APB</b> Appointment and Promotion Board	<b>ITS</b> Information Technology Services Division
<b>APT</b> Accounts, Payments and Treasury Division	<b>KMC</b> Knowledge Management and Collaboration
<b>ASHI</b> After-service health insurance	<b>KPI</b> Key Performance Indicators
<b>BMS</b> Building management services	<b>Management</b> UNIDO's Management
<b>BOS</b> Business operation services	<b>PBC</b> Programme and Budget Committee
<b>CATS</b> Cross-application timesheet system	<b>PCB</b> Polychlorinated Biphenyls
<b>CMO</b> Directorate of corporate management and operations	<b>PFC/RFC</b> Department of Regional and Field Coordination
<b>CO<sub>2</sub></b> Carbon dioxide	<b>PM</b> Project manager
<b>COVID-19</b> Coronavirus disease 2019	<b>PMM</b> Property management manual
<b>DCG</b> Development Cooperation Programmes and Projects	<b>PPE</b> Property, plant and equipment
<b>DCS</b> Direct Service Costs	<b>PPM</b> Portfolio and project management
<b>DG</b> Director General	<b>PRO</b> Procurement Services Division
<b>EA</b> External Auditor	<b>PSC</b> Programme support costs
<b>EB</b> Executive Board	<b>QUA</b> Quality Monitoring Division
<b>EIO</b> Office of Evaluation and Internal Oversight	<b>RB</b> Regular budget
<b>ERP</b> Enterprise resource planning	<b>RBB</b> Results-Based Budget
<b>ESG</b> Environmental, Social and Governance	<b>ROTC</b> Resource optimization for technical cooperation
<b>FCR</b> Full cost recovery system	<b>RPA</b> Robotic process automation
<b>FO</b> Field Offices	<b>RTLS</b> Real Time Location System
<b>FOREX</b> Foreign exchange differences	<b>SASB</b> Sustainability Accounting Standards Board
<b>FR</b> Financial Regulations and Rules of UNIDO	<b>SOP</b> Standard operating procedures
<b>FY</b> Fiscal Year	<b>SRM</b> Supplier relationship management
<b>GC</b> General Conference	<b>SDG</b> Sustainable Development Goal
<b>GEF</b> Global Environment Facility	<b>SPQ</b> Office of Strategic Planning, Coordination and Quality Monitoring
<b>GHG</b> Greenhouse gas	<b>TC</b> Technical Cooperation
<b>GRI</b> Global Reporting Initiative	<b>TC Guidelines</b> Guidelines on technical cooperation programmes and projects
<b>HCFC</b> Hydrochlorofluorocarbon	<b>TCFD</b> Task Force on Climate-Related Financial Disclosures
<b>HLCM</b> High-Level Committee on Management	<b>ToR</b> Terms of Reference
<b>HQ</b> Headquarters	<b>ULO</b> Unliquidated obligations analysis
<b>HCM</b> Human Capital Management	<b>UNDS</b> United Nations Development System
<b>HR</b> Human Resources	<b>UN</b> United Nations
<b>HRM</b> Department of Human Resources Management	<b>UNGM</b> United Nations Global Marketplace
<b>HRS</b> Human Resources Specialist	<b>UNIDO</b> United Nations Industrial Development Organization
<b>ICSC</b> International Civil Service Commission	<b>UNRC</b> United Nations Resident Coordinator
<b>IDB</b> Industrial development board	<b>UR</b> UNIDO Representatives
<b>IPSAS</b> International Public Sector Accounting Standards	<b>VBO(s)</b> Vienna-based Organization(s)
<b>IRPF</b> Integrated Results and Performance Framework	<b>VC</b> Voluntary contributions
<b>ISA</b> International Standards on Auditing	<b>VIC</b> Vienna International Centre
<b>ISMS</b> Information Security Management System	<b>3E</b> Economy, efficiency and effectiveness
<b>ISSAI</b> International Standards for Supreme Audit Institutions	
<b>ISID</b> Inclusive and Sustainable Industrial Development	
<b>ISO</b> International Organization for Standardization	

**СЧЕТНАЯ ПАЛАТА РОССИЙСКОЙ ФЕДЕРАЦИИ  
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**LETTER OF TRANSMITTAL**

Dear Ms. Krois!

It is my honour to present the External Auditor's report for the United Nations Industrial Development Organization (UNIDO) to the 50th Industrial Development Board at the 38th 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, 2021.

Chairman



Aleksei Kudrin

**H.E. Ms. Dominika Krois**  
**President of the forty-ninth session**  
**of the Industrial Development Board**  
**United Nations Industrial Development Organization**  
**Vienna, Austria**

## ACKNOWLEDGEMENTS

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**  
**the Accounts Chamber of the Russian Federation**  
**External Auditor**

**Moscow, Russian Federation**  
**April 18, 2022**



**Aleksei Kudrin**

## INDEPENDENT AUDITOR'S REPORT

To the Industrial Development Board of the 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, 2021, 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 the United Nations Industrial Development Organization (UNIDO) for the year ended December 31, 2021. The financial statements comprise:

- Statement of financial position as at 31 December 2021;
- Statement of financial performance for the year ended 31 December 2021;
- Statement of changes in net assets for the year ended 31 December 2021;
- Cash flow statement for the year ended 31 December 2021;
- Statement of comparison of budget and actual amounts for the year ended 31 December 2021; 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 International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements. We have fulfilled our 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of UNIDO.

**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****Accounts Chamber of the Russian Federation****External Auditor****Moscow, Russian Federation****April 18, 2022****Mr. Aleksei Kudrin**

# 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. The report includes three sections: financial audit, performance audit and IT audit. In addition, a section on innovations with optional recommendations was included in the report to illustrate areas for growth and development. In our opinion, this structure provides the best overview of UNIDO's operations and keeps our focus on risks and on the interests of key stakeholders. In the FY 2021 report, we specified the key audit risks and appropriate audit response to provide reasonable explanations for the importance of noted recommendations.

## 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, 2021, 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 2021 financial statements and the performance audit, as stated in Article 11.4 of the FR.

The audit scope includes the following areas:

- **Financial audit** to ensure that the financial statements were free from material misstatements.
  - **Performance audit.** This area includes an assessment of the Organization's key processes. The performance audit was carried out 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. Six areas were selected for this part of the audit (see "Areas of focus" below).
  - **IT audit and Innovations.** The IT area 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).
    - **Rollforward of 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. We focus on prior year findings and consider whether the current management approach is sufficient to mitigate vulnerabilities and reduce UNIDO's exposure to cybersecurity risks to an acceptable level.
- Innovations** section includes an analysis of optimizing UNIDO's operations using IT tools. New technologies and business solutions trigger the necessity to update the way activities are performed.



## 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 2021.
- 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 2021 (statement 5).
- Notes to the financial statements.

We issued an unqualified auditor's report regarding UNIDO's financial statements as at December 31, 2021, 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 wrongdoings 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 judgment. An additional sample size was selected based on data science tools applied by the audit team.
- **Performing the IT audit:** This included an IT general controls (ITGC) assessment and roll-forward prior year 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:** We concluded whether IT general controls are effective or ineffective. The evaluation of IT was focused on high-risk areas and a limited assessment of control design.
- **Conducting a performance audit:** This included an assessment of the six 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.
- **Innovations:** This section included an assessment of processes that are inefficient by design. The External Auditor's recommendations are aimed at transforming operations that could be enhanced by automation, lean-based approaches using IT solutions and various tools available to the Organization.

## 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, 2021. We also selected business processes for the performance audit as indicated below.

### BUSINESS PROCESSES COVERED BY RECOMMENDATIONS

#### A. FINANCIAL AUDIT

- Financial statements closure process ("FSCP")
- Property, plant and equipment ("PPE")
- Receivables and revenue
- Foreign exchange differences ("FOREX")
- Liabilities and expenses

#### B. PERFORMANCE AUDIT

- Environmental, social and governance
- Project implementation
- Field offices assessment
- Resource optimization in technical cooperation
- United Nations Resident Coordinator system
- Human resources management

#### C. IT AND INNOVATIONS

- ITGC
- Innovations

The External Auditor's report on the 2021 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:



#### Critical

level of risk assigned to weaknesses that have a fundamental impact and require immediate action



#### Medium

level of risk assigned to weaknesses that may increase the likelihood of errors/incidents (remediation is recommended in the short term)



#### High

level of risk assigned to weaknesses that have a considerable impact (second-level priority)



#### Low

level of risk assigned to weaknesses that may increase the likelihood of errors/incidents (remediation is recommended within the next year)

## Key audit observations

**High**

### 1. Environmental, Social and Governance (ESG) Recommendation **Status: pending resolution**

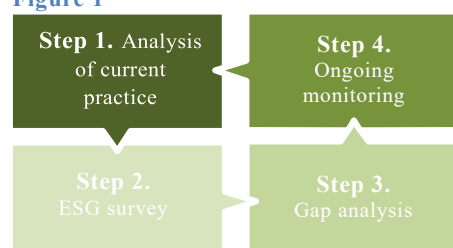
The ESG assessment was performed in order to conclude whether information disclosed by UNIDO is sufficient, adequate and precise enough for key stakeholders. As there is no universal guidance, we relied upon current reporting initiatives and existing global best practices.

Our analysis covered two perspectives:

- **Internal ESG perspective.** How the Organization follows ESG principles in its internal processes.
- **External ESG perspective.** How the Organization follows ESG principles delivering projects from donors.

The External Auditor performed a four-step procedure to assess UNIDO's ESG reporting:

Figure 1



The Global Reporting Initiative (GRI) was applied to assess UNIDO's current reporting practices. We noted that overall sustainability reporting requires harmonization and that the reporting indicators need to be more useful and consistent.

Although UNIDO's reporting of activities and business sustainability is credible and represents good practice, we recommend considering the following matters based on the results of our analysis and key stakeholder survey:

- **Provide "different angles" of reporting** to give a broader overview of work done rather than focus on success stories.
- **Consider indicators based on best practices.** For example, CO<sub>2</sub> emissions should be reported based on actual data. Otherwise, reporting of such indicators does not provide an understanding of the real impact of UNIDO's activity.
- **Consider additional disclosures** that are highlighted by key stakeholders in the survey, e.g. water stewardship practices and supply chain management at UNIDO's projects, as well as energy efficiency and greenhouse emissions for internal processes. Disclosure of comparative data for prior periods would be also beneficial.

**Management response:** PARTIALLY AGREE: Provided this is embedded in a discussion with UNIDO Member States in the framework of the MTPF and the Programme and Budgets. While the GRI ESG discussion is certainly a valuable one, the integration of the approach would require time and sufficient additional resources to be implemented. UNIDO would be interested to learn whether other international organizations fully report against GRI disclosures. DAC principles on effective development cooperation, which are very material to the operations of UNIDO, do not appear to be fully aligned to this framework. UNIDO would also be interested to learn about ways in which other international organizations report CO<sub>2</sub> emissions based on actual data, if any.

**Critical**

### 2. IT general controls (ITGC)

#### Recommendation

**Status: partially**

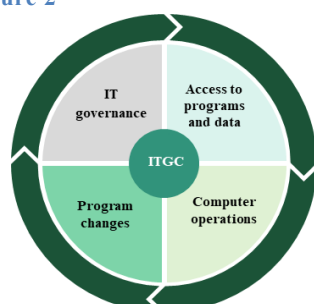
As part of the financial statements audit, we evaluated IT general controls to assess the reliability and integrity of the key applications used by UNIDO.

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



In FY 2021, we noted significant progress in remediating IT control deficiencies. Assuming existing budgetary constraints and complexity of IT matters, Management has demonstrated a commitment to this area and professional approach.

At the same time, the IT deficiencies are critical. Therefore, the External Auditor cannot rely on UNIDO's IT general controls due to the high exposure to IT risks. IT risk management remains an important topic for the Organization. Key observations in FY 2021:

- Segregation of duties remains an issue. Management introduced updates to standard operating procedures. At the same time, any retreat from ISO/IEC 27001 reduces the quality of ERP system controls.
- Privileged rights: Decrease of "privileged operations" is a good sign, but keeps internal controls exposed to IT risks.

We recommend that Management follow the remediation plan and develop additional control procedures as part of ongoing improvements.

**Management response:** UNIDO takes note of the recommendation. There has been continuous improvement on this area. A proposal is being considered by senior management for further improvement, including reorganization of the IT function.

### 3. Human Resources Management

#### Recommendation

**Status:** pending resolution

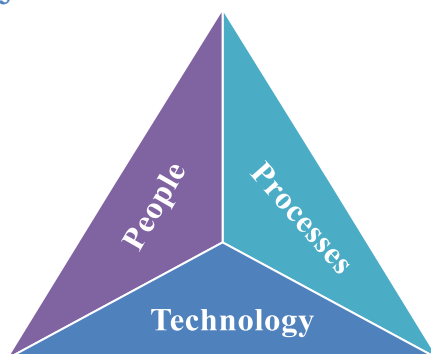
UNIDO has recently developed a human resources strategy (HR strategy) for 2020–2022. The strategy includes the following organizational pillars:

- Pillar 1: Institutional strengthening
- Pillar 2: Knowledge management and preservation
- Pillar 3: Geographical and gender representation

The HR strategy also establishes HR strategic objectives such as optimized talent acquisition, an engaged and motivated workforce and an inclusive, high performance work culture.

In order to assess the HR strategy and approach, we evaluated the current composition of the workforce, staff competencies, performance management and knowledge management practices. In performing the analysis, we evaluated the main components, including the management of people, processes and technology:

Figure 3



Currently, over 70 per cent of UNIDO employees are ISA holders. Almost 60 per cent started a new contract with UNIDO less than four years ago. Given this composition, it is challenging for the Organization to keep people highly motivated and maintain knowledge-sharing practices.

It is difficult to achieve the pillars of the strategy, especially institutional strengthening, when a larger portion of the workforce – ISA holders – remains outside of most HR management processes, such as performance and competencies assessment, training, motivation and retention, and knowledge-sharing.

We encourage UNIDO to consider improving its performance appraisal system based on global best practices, including management by objectives (MBO), psychological appraisals, and the behaviourally anchored rating scale (BARS). In addition, key performance indicators (KPIs) that clearly measure staff performance are vital for assessing effectiveness and efficiency. It is important to ensure that KPIs are established using core principles like ability to measure, accountability, ownership and link to strategic goals.

Considering UNIDO's specifics, knowledge management is a critical success factor for the Organization. We recommend that Management conduct a staff survey and analyse current knowledge management practices to identify first priority weaknesses and deal with them.

**Management response:** The recommendations are noted. Please refer to the comments under respective recommendations.

 **High**

**Status:** pending resolution

### 4. Property, plant and equipment

To perform a meaningful analysis, the External Auditor conducted additional procedures in FY 2021. The audit strategy included the following main areas:



**Asset existence:** The External Auditor assessed whether recorded assets actually exist. In addition, we observed physical verification process and inspected PPE during our field visits.



**Asset omission:** We performed a test to evaluate whether the assets we identified on UNIDO's premises were actually recorded.



**Asset control:** The identification of assets transferred to the beneficiary. Such assets should be removed from the books if UNIDO does not exercise control over them.

We recommend that Management update the Property Management Manual to enhance controls over the physical verification process to ensure proper guidance for the verification process and the appropriate level of personnel assigned to verification.

Enhancing controls over responsible custodians, tagging assets and extending the RTLS system to BMS will strengthen internal controls over the asset management process.

Moreover, we proposed additional internal control procedures to ensure that delivered but not commissioned assets are properly recorded as part of property, plant and equipment at the reporting date. We note that failure to record the balance of such assets on a timely basis may be material.

In FY 2021, such analysis was performed and identified assets were properly recorded as of 31.12.2021 and 31.12.2020, respectively.

**Management response:** Generally, agrees with the recommendations. Please refer to the comments under respective recommendations.

## Audit results

### Introduction

UNIDO is a specialized United Nations (UN) agency that aims to promote and accelerate inclusive and sustainable industrial development (ISID) in Member States. UNIDO's strategic priorities include creating shared prosperity, advancing economic competitiveness, safeguarding the environment, and strengthening knowledge and institutions.

Projects implemented by UNIDO are funded by voluntary contributions, constituting nearly 64 per cent of the Organization's total revenue. In addition, UNIDO engages in revenue-producing activities, including building management services (BMS), sales of statistical data, publications, etc. In FY 2021, UNIDO had around 749 projects valued at a total of approximately \$1.411 billion, which is three per cent more than in FY 2020. Overall, UNIDO has over \$518 million for future activities, while project implementation was limited to \$179 million in FY 2021. Therefore, UNIDO has secured project funding for several years upfront.

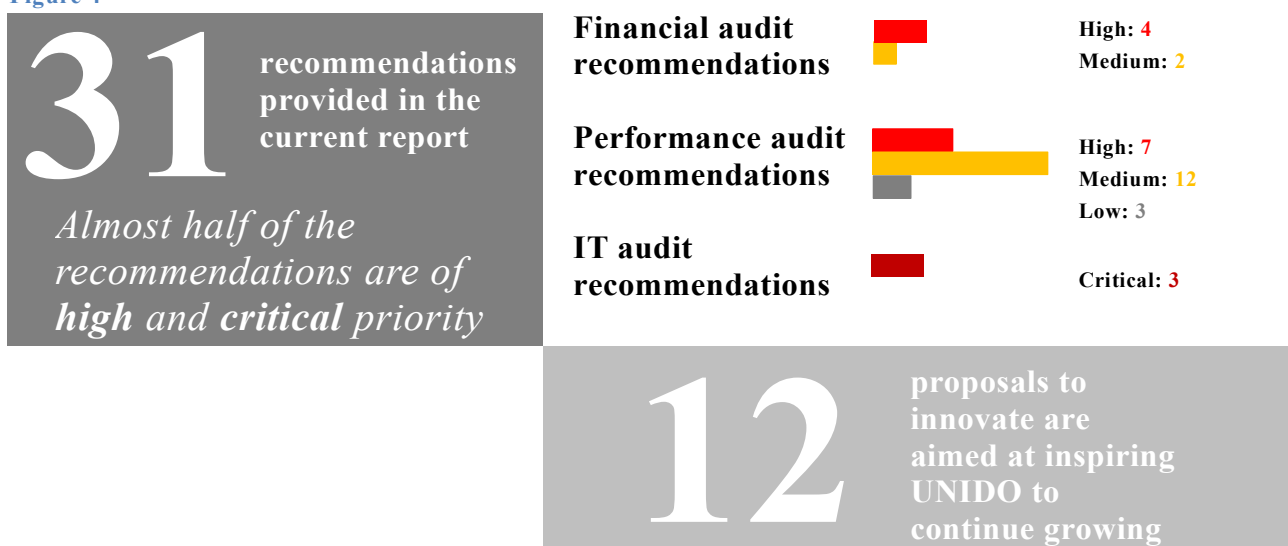
In FY 2021, UNIDO continued its operating activity, factoring in the accelerated spread of COVID-19. The Organization faces new risks for exposure and completely redesigned some business processes to adapt. It is important to note that UNIDO's activities were not significantly impacted by any disrupted or discontinued operations. Although there is increased pressure to maintain positive interest rates for cash deposits, UNIDO demonstrates a resilient position.

In the financial audit observations, we focused on key considerations that require the strengthening of internal controls. The design of controls plays a significant role in ensuring reliability of internal controls. The general controls in the systems represent the basis of Management control and provide genuine evidence of effective management. Recommendations on strengthening of IT general controls are provided in Section C "IT and Innovations". While we observed significant progress in strengthening IT general controls in FY 2021, the overall conclusion was that IT general controls are ineffective. In such a scenario, we expanded our work and tested additional documents to mitigate the audit risk.

We recognize the outstanding commitment of UNIDO Management and their dedication to work. Regardless of resources constraints and significant challenges such as the COVID-19 pandemic, there are numerous examples of work "beyond the possibilities". A comprehensive work with issues in financial statements and IT issues results in tremendous progress, so we encourage UNIDO to continue steps forward in strengthening the control environment. In FY 2021 we covered six sections of performance audit and considered innovation spirit of the Organization. Overall, despite External Auditor's observations, this is important to highlight, that UNIDO internal processes well-delivered due to great work of staff. We noted in many areas "out of box" thinking and application latest technologies supported by personal staff initiatives. Such proactive position is a critical success factor and a sign of resilient mature Organization.

Further, we would like to mention the upcoming IPSAS updates in further accounting periods. The effective date of IPSAS 41 "Financial Instruments" is January 1, 2023, with earlier adoption encouraged. IPSAS 41 is applied retrospectively in accordance with IPSAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors" unless specific conditions are met. Taking into account the complexity of the accounting standard and pervasive impact of various financial instruments, we encourage Management to consider preparing for the transition at the earliest stages. This new approach will require the collection of additional and not-readily-available data, so it is important to start the transition gradually.

Figure 4



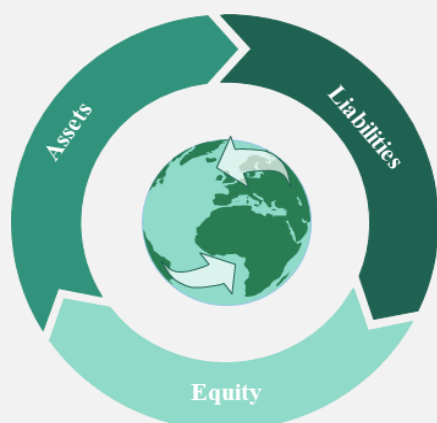
## A. Financial audit

### Financial Statements overview

#### Statement of financial position

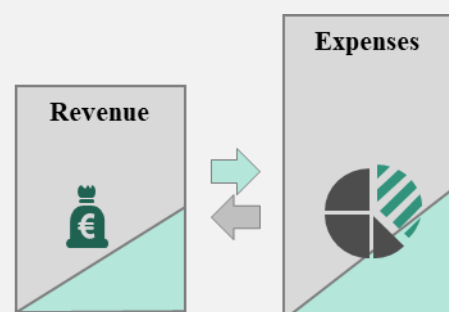
##### Overview of financial position as at 31.12.2021

Figure 5



##### Overview of financial performance for the year ended 31.12.2021

Figure 6



**Cash and cash equivalents** represent **56 per cent** of total assets, demonstrating a stable balance (+4 per cent versus prior year balance). Nearly **99 per cent** of cash and cash equivalents are held in rated financial institutions.



**Accounts receivable** from non-exchange transactions remains significant at around **31 per cent** of the total value of assets. Receivables from Member States represent less than five per cent of the receivables balance, while the majority relates to voluntary contributions.



**Property, plant and equipment (PPE)**. About **44 per cent** of the PPE net book value relates to UNIDO's share in the Vienna International Centre (VIC).



**Employee benefits** balances represent primarily post-employment benefits, including after service health insurance, and constitute 58 per cent of total liabilities.



**Accumulated surplus** increased by six per cent (€20 million).

**Assessed contributions** represent **27 per cent** of total revenue. Collection rates increased in second year of biennium up to 89.9 per cent.



**Voluntary contributions (VC)** represent around **64 per cent** of total revenue. VCs remain a key source of funds for UNIDO. Participation in UNRC system introduced in 2019 is not visible in terms of current year revenues, but cost-volume-profit analysis demonstrates promising future of the programme. Detailed analysis of UNRC provided in performance audit section of the current report.



**Expenses** incurred approx. €264 million with a €3 million operating deficit. Nearly 31 per cent of expenses pertain to contractual services. Therefore, we performed detailed analysis to evaluate whether such expenses are recorded in the proper period.



**Currency exchange gains/losses** is complex and material. The majority of differences relate to unrealized gains/losses. Such gains/losses depend on the exchange rate of EUR to USD as many projects are delivered in USD, significant portion of deposits is in USD that is converted to EUR as at reporting date. In FY 2021 technical changes in FOREX calculation resulted in restatement of revenue, details are provided in revenue observation.

#### Adjustment of financial statements

During the audit we identified the following cases that required adjustment of current year financial statements line items and according comparative data. The following key adjustments were performed (list of adjustments – Note 23 of FS):

- **Advances for capital assets.** We identified advances for purchase PPE treated as other current assets. Based on substance over form approach, such advances shall be treated as pre-financed PPE. In this case, such advances shall be either other non-current assets, or PPE. UNIDO adjusted opening balance for €7.7 million to reclassify the advances from current assets to non-current as at 31.12.2020; €9.6 million reclassified as at 31.12.2021.
- **FOREX.** Recognition of deferred income as at reporting date for the installments not yet requested by UNIDO triggered foreign exchange gain or loss generated by system. In accordance with IPSAS 4 "The effects of changes in foreign exchange rates" such FOREX gain or loss shall be separately presented in appropriate line. VC revenue and currency translation gain/(loss) were adjusted for the amount of €3.9 million in FY 2020 and €3 million in FY 2021.

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**. **Section C** covers the IT and Innovations audit and **Section D** contains the External Auditor's observations from prior years.

**A. Financial audit****B. Performance audit****C. IT and Innovations****A. Financial audit****Key recommendations:**

Recommendations	Level of risk
<b>A.1. Property, plant and equipment (PPE)</b>	
<b>A.1.1. PPE.</b> Physical verification process may be formal or incomplete	Medium
<b>A.1.2. PPE.</b> PPE delivered to UNIDO may be omitted as at reporting date	High
<b>A.1.3. PPE.</b> Non-controlled PPE may be recorded on UNIDO's Statement of financial position	High
<b>A.2. Receivables and Revenue</b>	
<b>A.2.1. Revenue.</b> UNIDO recognized foreign exchange gains/losses as part of revenue	High
<b>A.2.2. Revenue.</b> Receivables classification as current and non-current based on expectation of project implementation schedule that may be imprecise	Medium
<b>A.3. Liabilities and Expenses</b>	
<b>A.3.1. Liabilities and Expenses.</b> Contractual services may include expenses that relate to the previous reporting periods	High

**A.1. Property, plant and equipment**

Most property, plant and equipment relate to the VIC office (€31.5 million out of €71.3 million). The remainder of PPE primarily comprises machinery and equipment for technical cooperation (€23.6 million out of €29 million). Taking into account, that PPE basically includes two types of assets, we assess audit risks as follows.

Audit risks associated with VIC office building mostly connected with appropriate valuation of the building. In order to manage these risks, the Management performs impairment analysis and evaluates reasonable factors that could affect the valuation of the office.

The machinery and other equipment create other risks that shall be assessed. Such equipment is spread over UNIDO's locations all over the world. For example, PPE with net book value exceeding €600 thousand is located in 12 different countries, €17.3 million in total. In such scenario key risks shall be assessed around proper identification of assets, analysis of potential impairment and even existence of PPE recorded on the Statement of financial position.

UNIDO's projects may require responsibility to purchase and install certain equipment. Donors benefit from UNIDO's expertise and procurement channels, and thus UNIDO usually arranges the best match of necessary equipment pursuing an economy, effectiveness, and efficiency approach. Once the project is closed, in most cases equipment is transferred to the beneficiary and UNIDO records the write-off of such equipment through a Statement of financial performance line "TC equipment expensed". There is a risk that not all equipment is transferred to beneficiaries. It should be noted that UNIDO purchases the assets and keeps the title until PPE is transferred to the beneficiary.

To perform a meaningful analysis, the External Auditor conducted additional procedures in the FY 2021 audit. The audit strategy included the following main directions:




**Asset existence (A.1.1):** Assessment whether recorded assets actually exist. We designed procedures to assess whether UNIDO has sufficient internal controls. In addition, we observed the physical verification process and inspected PPE during our field visits.



**Asset omission (A1.2):** Identification of assets that are omitted from the Balance sheet. We performed a "floor to book" test and evaluated whether assets we identified on UNIDO's premises were actually recorded. The other set of procedures was performed around unliquidated obligations analysis (ULO-analysis). The substance of ULO is the commitment of UNIDO to pay for something in future periods. We inspected the ULO sample to evaluate whether such commitments still stand with no assets delivered.



**Asset control (A.1.3):** Identification of assets transferred to the beneficiary. Such assets shall be removed from the books if UNIDO does not exercise control over them.

A. Financial audit	B. Performance audit	C. IT and Innovations
<p><b>A.1.1. PPE</b></p> <p>Physical verification process may be formal or incomplete. This may compromise the asset verification process</p> <p> <b>Medium</b></p> <p><b>Recommendation</b></p> <p>We recommend that Management strengthen internal controls over physical verification and extend RTLS to BMS</p>	<p>Process of physical verification of UNIDO's assets is designed in the Property Management Manual. The policy stipulates the approach of verification, including scope, timing and procedures that shall be performed by responsible personnel.</p> <p>During FY 2021 External auditor observed the physical verification performed by UNIDO at HQ and in the field (Ethiopia and Kuwait). Observations of the external auditor include the following points:</p> <ul style="list-style-type: none"> <li>• Several employees may be simultaneously accountable for the assets, e.g. Director of the Field office, a project manager at HQ, and a project coordinator at the Field office. Such an approach may lead to dilution of the internal controls and due care and responsibility. It is evident that the Management of UNIDO aims to balance staff costs and quality of procedures performed. Conversely, such an approach may discredit verification results.</li> <li>• The asset identification process may be complicated. Some assets may be stored without appropriate tags attached; others may be accounted as a single asset making it difficult to trace an exact asset in the books to real assets "on shelf". Such asset management may cause errors in accounting and result in inaccurate misleading data recorded in books.</li> <li>• The "floor to book" test is not performed as part of the verification process. Such a procedure may be performed in the following way: during stocktaking, the responsible custodian selects a specific or random asset "on shelf" and then evaluates whether such assets are accounted for in the books. In the best-case scenario, assets that are omitted from the accounting may be identified and properly recognized on the Balance Sheet during physical verification.</li> <li>• Real Time Location System (RTLS) does not include BMS assets. As a result, there is no possibility to track BMS assets in the online format and evidence their proper location and existence.</li> </ul>	
<p><b>Recommendation:</b></p> <p>We recommend that Management update the Property Management Manual to enhance controls over the physical verification process to ensure there is a proper guidance for the verification process, and the appropriate level of personnel assigned to verification.</p> <p>Enhancing controls over responsible custodians, tagging the assets and extending RTLS system to BMS will lead to strengthening internal controls over the asset management process.</p>		<p>Status: Open</p>

**Management response:**

AGREE: Implementation of RTLS system to BMS will require sourcing additional funding from the VBOs cost shared budgets.

## A. Financial audit

## B. Performance audit

## C. IT and Innovations

## A.1.2. PPE

PPE delivered to UNIDO may be omitted as at reporting date



High

## Recommendation

We recommend that Management develop additional procedures to strengthen internal controls over timely PPE recognition

In our analysis we performed audit procedures to assess whether UNIDO recognized the asset in a timely manner. According to the Property Management Manual, UNIDO issues a certificate of acceptance once the asset is received and installed. In practice there is a time gap between the day the asset is delivered to UNIDO and the installation day.

Assets delivered but not yet installed are not recognized on the UNIDO balance sheet; neither as construction in progress, nor as fixed assets. Such assets are recorded only after the installation and the certificate of acceptance sign-off.

Taking into account that the noted time gap may last several months or even years, there is a risk that assets delivered to UNIDO are omitted from the PPE balance as at reporting date. Instead, such delivered assets may be presented as part of the advance issued to the vendor.

Following the IPSAS requirement we note, that UNIDO shall record Property, plant and equipment, once such assets are controlled by UNIDO. The installation process by itself does not preclude UNIDO's ability to control the delivered assets.

## Recommendation:

Status: Resolved

We recommend that Management update current business practice and implement additional internal control procedures to ensure that delivered assets appropriately recorded as part of property, plant and equipment at the reporting date. In FY 2021 such analysis was performed, identified assets are properly recorded as of 31.12.2021 and 31.12.2020 respectively.

## Management response:

AGREE with the recommendation and already reflected in the 2021 financial statements.

## A.1.3. PPE

Non-controlled PPE may be recorded on UNIDO's Statement of financial position



High

## Recommendation

We recommend that Management performs analysis of recorded TC PPE and removes non-controlled assets from the BS to reflect accurate balance of PPE as at reporting date

UNIDO's projects may require purchasing property, plant and equipment. In most cases such equipment is recorded on the balance sheet of UNIDO to reflect UNIDO's responsibilities to control the asset during project delivery. Once the project is closed, such assets and title are usually transferred to the beneficiary.

During field visits, we identified PPE project assets that have been installed and already used by beneficiaries, although the project was not yet completed. UNIDO keeps such assets on its books, because the title belongs to UNIDO until project close. At the same time, despite the legal ownership, there are some other criteria indicating control over the asset, including access to the assets and existence of an enforceable right to receive economic benefits required by IPSAS to recognize an asset on the Statement of financial position. The following fact pattern points shall be considered by UNIDO. Once assets are used only by beneficiaries, UNIDO cannot receive economic benefits from such assets. UNIDO may have a restricted access to the assets.

Title as legal ownership itself does not represent in substance an instance of control. In practice, control lies with beneficiaries, assets shall be removed from UNIDO BS regardless of their title since UNIDO does not have control over such assets.

Considering the geography of UNIDO's operations and high number of projects, identification of non-controlled assets may require time-consuming analysis to be performed as part of an accurate preparation of the financial statements. However, the book value of such non-controlled assets may be material. For instance, as part of the Kuwait visit, we identified a production line that was in fact used by a beneficiary. To mitigate the audit risk of an overstated balance of property, plant and equipment, detailed analysis as at reporting date was performed.

## Recommendation:

Status: Open

We recommend that the Management perform an analysis of PPE assets recorded on UNIDO's Financial Statements during FY 2022 to ensure accuracy of PPE books and strengthen internal controls over the execution of paragraph 70 of the UNIDO Property Management Manual, that has the following requirement: "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". Strengthening the controls would require special developments for local representatives to identify and dispose non-controlled assets on a timely basis.

**Management response:** PARTIALLY AGREE: The feasibility of this recommendation will be discussed internally as well as with affected funding partners and prior to making necessary amendments to rules and procedures.

**A. Financial audit**

**B. Performance audit**


**C. IT and Innovations**

**A.2. Receivables and Revenue**

UNIDO's revenue includes the following types: assessed contributions, voluntary contributions, investment revenue, revenue-producing activities and miscellaneous income. We performed the audit of revenue streams based on their specifics and nature, therefore we shaped the audit risk based on the substance of transactions:

- **Assessed contributions** are considered from the collectability standpoint. Analysis of collected payments is an essential part of the assessed contributions audit.
- **Voluntary contributions** represent a material part of UNIDO's financing (64 per cent of total revenue in FY 2021). Key risks associated with occurrence, therefore auditor inspected supporting documents. In addition, IPSAS requirements on revenue transactions are quite complex, therefore there is a special risk to measure revenue appropriately. As such, we designed audit procedures to evaluate whether voluntary contributions are accurately calculated (deferred to further accounting periods) and measured, factoring in foreign currencies and other complications.
- **Revenue-producing activities** mostly include financing received from VBOs to execute building management services (BMS) assigned to UNIDO. Such services require analysis regardless of whether UNIDO acts as principal of BMS services or as an agent. Such classification is a judgment that requires justification of the substance of performed services. The classification "agent" or "principal" results in different accounting treatment and presentation of revenue in the financial statements ("net basis" offsetting revenue and expenses for agent and "gross basis" for principal).
- **Investment revenue and miscellaneous income** involve various types of revenue, where most of the amount pertains to UNIDO's income due to favourable HQ office rental conditions. This amount (around €2 million) recalculated by the auditor to evaluate its accuracy and reasonableness.

In the observations below we provided our assessment of identified issues and recommendations to strengthen internal controls over considered transactions assuming their significant balance and elevated risk by nature:

<b>A.2.1. Receivables and Revenue</b>	<p>We considered the accounting treatment of voluntary contributions. Once UNIDO signs-off the contract that guarantees a certain amount of financing, such amount shall be recognized as revenue right away. In reality, financing is collected by UNIDO in several tranches. Such tranches may be denominated in foreign currencies and trigger excessive foreign exchange gains or losses. During the reporting period UNIDO recognizes the full amount of voluntary contributions from binding arrangements. At the year-end, UNIDO performs deferral of the revenue part that has not yet been requested. Such deferral generates FOREX gains/losses because the exchange rate is different at the initial revenue recognition and "deferral day". In order to comply with IPSAS, such gains/losses generated shall be segregated from revenue amount and presented separately. Exchange gain or loss shall be presented as part of "Currency translation gains/(losses)" financial statement line item. In previous reporting periods, such gains/losses presented as part of voluntary contributions in the Statement of financial performance.</p>	
<b>UNIDO recognized foreign exchange gains/losses as part of revenue</b>		
 <b>High</b>		
<b>Recommendation</b> We recommend that UNIDO recognize foreign exchange gains/losses separately from revenue to avoid misleading of users		

In order to eliminate such foreign exchange gains or losses from revenue UNIDO performed the adjustment of the FY 2020 financial statements and corrected FY 2021 transactions. The amount recognized as part of VC Revenue for FY 2020 and 2021 is adjusted in the amount of €3 million in FY 2021 and €3.8 million in FY 2020 (please refer to Note 23.2).

<b>Recommendation:</b>	<b>Status: Resolved</b>
We recommend that Management recognize revenue and foreign exchange gains/losses separately in the Statement of financial performance.	

**Management response:**

AGREE with the recommendation and already reflected in the 2021 financial statements.

**A. Financial audit****B. Performance audit****C. IT and Innovations****A.2.2. Receivables and Revenue**

Receivables classification as current and non-current based on expectation of project implementation schedule that may be imprecise

 **Medium**

**Recommendation**

We recommend that the Management encourage project managers to estimate budget schedule precisely

Within the audit procedures for accounts receivables we identified that distinguishing of current and non-current portions of GEF receivables may be inaccurate. The classification of current and non-current portions is based on the project budget broken down by each year of the project implementation period.

We noticed that provided breakdown does not always reflect a real schedule of project implementation and may represent a rough estimate of the work schedule. Taking into account GEF receivables constitute more than 80 per cent of total receivables (€206.6 million), accurate justification of work planned shall be performed.

The improper breakdown of project funds negatively affects the distinguishing of current and non-current portions of account receivable in UNIDO's Financial statements.

**Recommendation:**

Status: Open

We recommend that Management strengthen internal controls over planning of GEF projects and re-assess estimates that impact proper accounts receivables classification.

**Management response:**

AGREE: Managers will be encouraged to estimate project budgets more precisely, when feasible.

**A.3. Liabilities and Expenses**

As a rule, expenses are accompanied with supporting documents. Once the organization receives a supporting document for the expense incurred, such expense shall be recorded in the accounting. In reality, there may be a time gap between the day the service is rendered or asset delivered and the day the supporting document is received. Based on UNIDO's days payables outstanding (DPO) 118 days we can conclude that on average UNIDO pays for service during three–four months. This means that at the reporting date, extensive procedures need to be performed to identify payables/expenses that shall be charged in the period to which they relate. COVID-19 impacted the normal course of business; we observed many cases of documents delivered late to UNIDO.

**A.3.1. Liabilities and Expenses**

Contractual services may include expenses that relate to the previous reporting periods

 **High**

**Recommendation**

We recommend that Management enforces stronger internal controls to establish timely recording service delivery date into system

Contractual services increased by 53 per cent (or €28.6 million). We performed detailed analysis to investigate whether expenses recorded in FY 2021 relate to the reporting period. In addition, we analysed three months of FY 2022 to identify transactions that actually refer to FY 2021.

Taking into account that expenses incurred in the period are material, internal controls over such expenses shall be strengthened. In order to do so, project managers shall be instructed to report incurred expenses immediately. Currently the Management performs extensive procedures to compensate lack of reporting. Such an approach may lead to insufficient level of internal control over payables/expenses recording. For example, we identified services in the amount of €4 million recognized in FY 2022. In fact, supporting documents for such expenses were received and confirmed in FY 2021. Taking into account UNIDO's practice of recognizing expenses once invoice is received, such amount of €4 million was charged in the improper period.

**Recommendation:**

Status: Open

We recommend that Management strengthen internal controls over expenses cut-off. In addition, project managers shall be obliged to report the completed service immediately without waiting for invoices or other documents triggering payment process. As soon as the expense is incurred it shall be accrued in the Statement of financial performance in the period to which it relates.

**Management response:**

AGREE: Managers will be encouraged to adhere to the Procurement Manual guidelines on timely recognition of goods and services.

**A. Financial audit**

**B. Performance audit**

**C. IT and Innovations**

**B. Performance audit**

**Key recommendations:**

Recommendations	Level of risk
<b>B.1. Environmental, Social and Governance (ESG)</b>	
<b>B.1.1. ESG.</b> Indicators calculated and presented in the Annual Report may be based on inconsistent methodology	<b>High</b>
<b>B.1.2. ESG.</b> Indicators in the Annual Report may skip comparative data	<b>Medium</b>
<b>B.1.3. ESG.</b> “Success stories” and the small number of indicators may focus the attention of stakeholders on a small portion of UNIDO’s business	<b>Medium</b>
<b>B.1.4. ESG.</b> Absence of ESG reporting standards reduces transparency vis-a-vis stakeholders	<b>High</b>
<b>B.1.5. ESG.</b> Stakeholder expectations with respect to ESG disclosures are not fully reflected in the Annual Report	<b>Medium</b>
<b>B.1.6. ESG.</b> Current ESG reporting does not include a number of relevant disclosures	<b>High</b>
<b>B.2. Project implementation (PI)</b>	
<b>B.2.1. Project implementation.</b> Insufficient budget justification	<b>Medium</b>
<b>B.2.2. Project implementation.</b> IRPF indicators on the projects are set formally and may be not appropriately reviewed	<b>Medium</b>
<b>B.2.3. Project implementation.</b> Criteria for midterm and terminal evaluation are not clearly defined	<b>Medium</b>
<b>B.3. Field offices (FO) Assessment</b>	
<b>B.3.1. FO Assessment.</b> Communication between FOs and HQ requires improvement	<b>Low</b>
<b>B.4. Resource Optimization in Technical Cooperation (ROTC)</b>	
<b>B.4.1. ROTC.</b> Centralization of medium value procurement	<b>High</b>
<b>B.4.2. ROTC.</b> Implementation of ROTC pilot requires ongoing analysis and monitoring	<b>Medium</b>
<b>B.4.3. ROTC.</b> Segregation of PM duties during the project cycle is not formalized	<b>Low</b>
<b>B.5. United Nations Resident Coordinator system (UNRC)</b>	
<b>B.5.1. UNRC.</b> Benefits from participation in the UNRC system shall be considered on an ongoing basis and reported	<b>Medium</b>
<b>B.6. Human resources (HR) assessment</b>	
<b>B.6.1. HR.</b> The current composition of workforce should be revised to ensure the implementation of the HR strategy	<b>High</b>
<b>B.6.2. HR.</b> Staff competencies should be specified for each position	<b>High</b>
<b>B.6.3. HR.</b> Merit promotion does not result in the revision of the budgetary and classified level of the posts	<b>High</b>
<b>B.6.4. HR.</b> The Staff Performance Management System requires improvement	<b>Medium</b>
<b>B.6.5. HR.</b> The learning and development function requires improvement	<b>Medium</b>
<b>B.6.6. HR.</b> The knowledge management system requires improvement	<b>Medium</b>
<b>B.6.7. HR.</b> The recruitment process requires improvement	<b>Medium</b>
<b>B.6.8. HR.</b> The workload of PMs is not assessed systematically	<b>Low</b>



## B.1. Environmental, Social and Governance (ESG)

### Background

Today, society, public and private organizations, governments and other stakeholders are raising concerns regarding sustainability, including climate change challenges, environmental footprint, inequality and different aspects of complex corporate governance.

The adoption of Sustainable Development Goals (SDGs) by the United Nations in 2015 attracted attention to the importance of environmental, social and governance (ESG) principles on a global level. The SDGs are considered a universal call to end poverty, protect the planet, reduce inequality and ensure that by 2030 all people enjoy peace and prosperity. In this context, we would like to bring the attention of key stakeholders to ESG responsibility and reporting (“sustainability reporting”). High-quality sustainability reporting constitutes a “bridge” to the achievement of the SDGs.

Currently there are no strict requirements for UNIDO to comply with ESG initiatives or any practices widely adopted in the commercial sector. Existing reporting practice of the Organization is quite extensive and professional: there are numerous non-financial disclosures, rather comprehensive topics covered in the Annual Report and various communications. At the same time, we observe a massive transformation of the public reporting process pursuing ESG initiatives, so it would be valuable to highlight current gaps in the reporting, which indicate areas for further development of UNIDO practice.

### Methodology and approach

The ESG assessment was performed in order to conclude whether the information disclosed by the Organization is sufficient, adequate and precise enough for stakeholders. Bearing in mind that no universal guidance exists in this area, we relied upon current reporting initiatives and existing best practices.

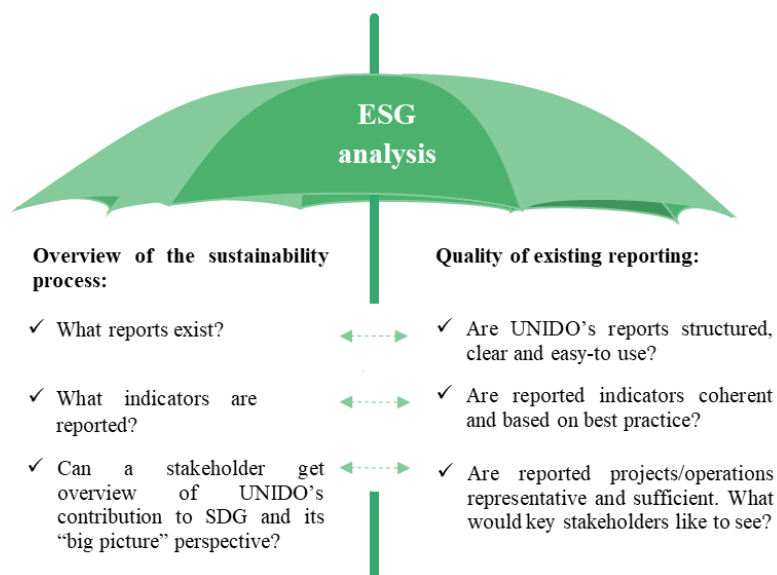
UNIDO does not prepare a specific ESG report. At the same time, a lot of data are disclosed to stakeholders in the Annual Report and various voluntary disclosures as part of the sustainability reporting process. The External Auditor did not perform full-scope assurance procedures in respect of sustainability reporting.

It should be noted that the ESG analysis provides two different perspectives:

- **Internal ESG perspective:** How the organization follows ESG principles in its internal processes, for example, UNIDO’s impact on the environment, UNIDO’s gender balance or UNIDO’s ESG priorities.
- **External ESG perspective:** How the organization follows ESG principles in delivering projects from donors. Projects are performed to achieve SDGs, so ESG principles may assist in achieving this target in a more efficient way.

The figure below illustrates the approach that the External Auditor applied during the ESG analysis:

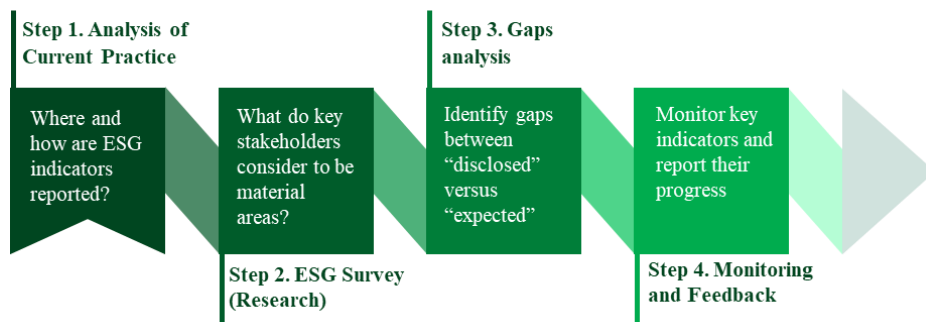
Figure 7. ESG analysis





The External Auditor followed a four-step to approach in assessing UNIDO’s ESG reporting:

Figure 8



In our analysis we considered the structure of Integrated Results and Performance Framework (IRPF) indicators represented by Levels 1–4 and specifically focused on Level 4 as the appropriate ESG indicators for UNIDO’s internal processes.

### Frameworks applied in the analysis

The disclosure of ESG indicators is a fairly new topic. As such, there are no obligatory reporting requirements yet. However, professional bodies and public organizations have already issued a number of ESG standards:

- **Global Reporting Initiative (GRI):** The GRI is an independent, international organization that helps businesses and other organizations take responsibility for their impacts. GRI standards remain dominant in sustainability reporting, accounting for more than 150 indicators in the broad universe of ESG issues applicable for all organizations. The GRI standards are structured as a set of interrelated standards. There are three universal standards that apply to every organization preparing a sustainability report (including governance aspects) and the set of topic-specific GRI standards for reporting on its material topics. The topic-specific GRI standards are organized into three series: economic topics, environmental topics and social topics.
- **Sustainability Accounting Standards Board (SASB):** The SASB standards focus on industry specifics and the financial impact that certain things could have on a company. SASB includes ESG indicators that are most relevant to the financial performance for each of the 77 industries it covers. Thus, organizations should use the particular standards that are relevant for them.
- **Task Force on Climate-Related Financial Disclosures (TCFD):** TCFD provides information to investors about what companies are doing to mitigate the risks of climate change, as well as be transparent about the way in which they are governed. It consists of governance, strategy, risk management, metrics and targets.

Given that UNIDO’s projects and programmes are very extensive and may relate to various industries, it is not possible to select specific industries for further analysis. However, we can note that some SASB standards (for example, on agricultural products, solar technology, project developers, and waste management) include environmental and social indicators that coincide with those suggested by the GRI framework for UNIDO. As a result, our further analysis is based on GRI standards, which were assumed to be the most relevant and applicable for UNIDO among other popular ESG reporting frameworks covering key aspects of sustainability reporting.

### STEP 1. Analysis of Current Practice

The GRI defines the following main reporting principles for the quality of sustainability reporting: accuracy, verifiability, comparability, completeness, clarity, balance, sustainability context, and timeliness. These characteristics are commonly used in comprehensive assessments of reporting and represent best practices.

## A. Financial audit

## B. Performance audit

## ESG

## Other topics

## C. IT and Innovations

## B.1.1. ESG current practice

Indicators calculated and presented in the Annual Report may be based on inconsistent methodology



High

## Recommendation

We recommend that Management consider the list of indicators and harmonize the calculation and reporting approach

**Accuracy and Verifiability.** The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance. The organization should gather, record, compile, analyse, and report information in a way that establishes the quality and materiality of this information. We have analysed the methodology used to calculate certain indicators, as well as to understand and evaluate internal processes used to gather key information in order to support the reporting objectives and report preparation.

The IRPF contains a description of each IRPF indicator used. However, there is no unified methodology for calculating the described indicators or detailed guidance on the assumptions to be used in these calculations.

Based on our analysis of selected projects, we noted that the IRPF indicators entered in SAP do not have proper justification. At the same time, we recognized UNIDO's work in this area, e.g. providing trainings and ad hoc support.

For certain indicators, the calculation is based on planned rather than actual data.

For example, we analysed the calculation of avoided CO<sub>2</sub> emissions (*ENV.1 indicator*) and noted the indicator is based on planned data that do not take into account actuals and project specifics:

- Distribution of avoided CO<sub>2</sub> emissions over planned project calendar years is performed on a predetermined proportion for all projects with no adjustment for the specifics of the given project.
- Avoided CO<sub>2</sub> emissions are reported based on an estimation made at the project approval stage with no further adjustments for the actual results received.

In addition, we noticed that some indicators are either kept outside of the SAP system or are incomplete:

- Indicators on portfolio management (POR), organizational resources (FIN, EXP, HRM) and efficiency (OPM) are not embedded in ERP. Specific organizational units are responsible for maintaining the datasets for these indicators and submitting annual figures via email/OpenText as an overarching ITS system is still in the pipeline.
- ERP system does not include full data for the indicator ENV.1. "Cumulative reduction of CO<sub>2</sub>eq emissions". ERP reporting of GHG emissions does not include the results of the entire Montreal Protocol portfolio, which are calculated outside of the system.

## Recommendation:

Status: Open

We recommend that Management consider the following observations:

- a. Develop a unified methodology for calculating the reported indicators, including guidance on the assumptions to be used in the calculations, if any.
- b. Continue a holistic and systematic approach for project manager training.
- c. Revise the calculation of avoided CO<sub>2</sub> emissions taking into account actual data and project specifics.
- d. Embed all IRPF indicators in SAP in relation to the priority of the task.

## Management response:

**PARTIALLY AGREE:** The results framework is approved by the Member States and the SAP system fully embeds the approved indicators. Furthermore, currently transitioning into this new system is under way, which was mandated by the UNIDO General Conference only starting with the Programme and Budget 2022–2023. UNIDO regularly briefs the Member States on progress. Further, systematic support and training approaches to guide data specification and collection, reporting and monitoring are currently being developed and applied. This way, a more harmonized approach can be ensured and monitoring of and reporting on development results can be improved over time.

A. Financial audit

B. Performance audit

ESG

Other topics

C. IT and Innovations

B.1.2. ESG current practice

Indicators in the Annual Report may skip comparative data



Medium

Recommendation

We recommend that Management consider expanding the presentation of consistent and comparable data

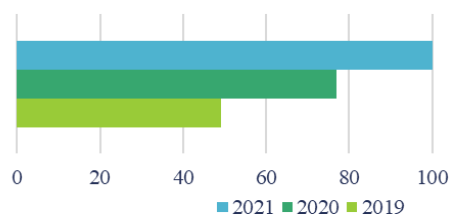
Comparability

UNIDO's Annual Report does not contain any comparative data with previous periods or benchmarks, which prevented us from developing an understanding of how the indicators have changed over time.

The comparative information may include data for previous periods, benchmarks, peer projects, country/regional data or planning figures. For example, the ENV.1 indicator on avoided CO<sub>2</sub> emissions could be presented as follows (please note that FY 2021 data are illustrative for the presentation purpose only):

Figure 9

ENV.1 Avoided CO<sub>2</sub>, million tons



Recommendation:

Status: Open

We recommend that Management include comparative data in the UNIDO Annual Report for the indicators presented via graphs or diagrams to make them clearer and to display trends in the data.

Management response:

AGREE: However, the data can only be compared over time starting with the Annual Report 2022, as this is the first time that the report will be presented using the IRPF. While some data have been collected for 2021, the quality still has to be improved to allow for benchmarking/comparison over time.

B.1.3. ESG current practice

"Success stories" and the small number of indicators may focus the attention of stakeholders on a small portion of UNIDO's business



Medium

Recommendation

We recommend that Management consider specific criteria for projects and indicators to be included in the Annual Report

**Completeness.** This principle requires inclusion of all topics that reflect an organization's significant economic, environmental, and social impacts in its reporting.

UNIDO's Annual Report discloses examples of projects presented as "success stories", but they do not provide an understanding of the overall results.

The criteria used to select projects for inclusion in the Annual Report are not sufficiently clear. They may be subjective and may not take into account projects meaningfulness and coverage to illustrate for Member States and donors the full picture of UNIDO's input in SDG achievement. For example, the Annual Report describes 30 projects out of 730 ongoing projects in 2020, which represents around four per cent and may be insufficient for representing the Organization's activities.

It is also noted that IRPF methodology does not include all relevant indicators in respect to ESG principles. Best practices in ESG reporting suggest that

indicators such as recycled input materials used, waste by type and disposal method, etc. be used. However, these indicators are not disclosed in UNIDO's Annual Report.

Recommendation:

Status: Open

We recommend that Management:

- Define specific criteria for including projects that are relevant for stakeholders in the Annual Report (e.g. based on financial or non-financial results achieved or resources used).
- Update the existing structure of indicators (consider including ESG reporting indicators that are more relevant).

## A. Financial audit

## B. Performance audit

## ESG

## Other topics

## C. IT and Innovations

**Management response:**

PARTIALLY AGREE: The criteria for selecting projects can be made more explicit. The Annual Report provides a narrative for each region and UNIDO's priority themes, which is as comprehensive as possible. UNIDO also does much more than just projects, so even a full project list would not illustrate the full picture for Member States and donors.

As the Annual Report 2022 will be the first one to report on a results-based budget, it will make systematic reporting on specific themes more comprehensive.

On the list of indicators and as mentioned before, these cannot be changed unilaterally. This has to be based on a discussion with, and mandate from, the Member States. This also needs to consider the resource requirements to further develop and enrich the IRPF.

**B.1.4. ESG current practice**

Absence of ESG reporting standards reduces transparency vis-a-vis stakeholders

**High****Recommendation**

We recommend that Management consider developing an ESG methodology and reporting principles

**Clarity and Balance.** The reporting organization should make information available in a manner that is understandable and accessible to stakeholders.

The information should reflect positive and negative aspects of the reporting organization's performance to enable a reasoned assessment of overall performance. The overall presentation of the report's content is expected to provide an unbiased picture of the organization's performance. No specific ESG reporting standards are applied in the preparation of the UNIDO Annual Report. In fact, such an approach is an impediment to achieving clarity in the Annual Report.

An open and consistent methodology could improve the level of clarity in SDG reporting. For example, the 2020 Annual Report contains information about the project 140197 "Support for Employment Creation in Mongolia (SECIM)" that aims to achieve SDG 5 "Gender equality" and SDG 10 "Reduced inequalities".

However, the information disclosed in the Annual Report does not provide

enough information to make an assessment of the contribution to these SDGs (e.g. there is no information about gender balance, comparison of salary, information about youth engagement).

**Recommendation:**

Status: Open

In order to strengthen ESG reporting, we recommend that Management:

- Develop or adopt an ESG reporting framework to improve reporting clarity and balanced reporting principles.
- Provide more information on contribution to SDGs for projects disclosed in the Annual Report.

**Management response:**

PARTIALLY AGREE: UNIDO reports against the structure of the MTPF/Programme and Budget 2020–2021, which is not yet results-based. The need to improve quality and transparency of reporting is reflected in the approach for the new MTPF/Programme and Budget 2022–2023, which will be used as the foundation for the Annual Report 2022. In line with the theory of change therein included, this should facilitate an understanding of UNIDO's overall contribution to the SDGs. A preliminary mapping exercise has already been carried out and is included in the Annex of the Annual Report 2021.

On the ESG framework in general, please refer to earlier comments on the same.



**STEP 2. ESG Survey (Research)**

The goal of the ESG survey was to identify key stakeholders’ areas of interest and, in particular:

- To clarify whether current reporting meets stakeholder expectations
- To obtain feedback on such reporting with regard to clarity and the value for stakeholders.

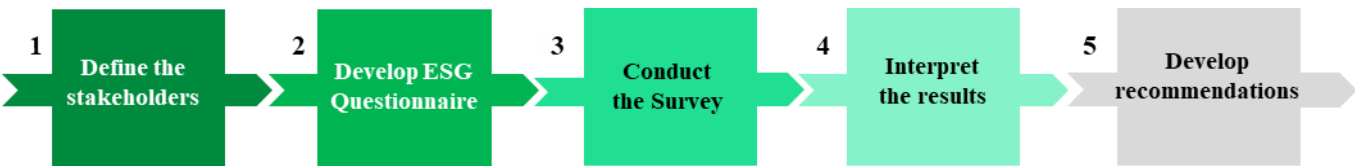
According to the GRI reporting framework, stakeholders are defined as parties that can reasonably be expected to be significantly affected by an organization’s activities or whose actions can reasonably be expected to affect the ability of the organization to implement its strategies or achieve its objectives.

**Methodology and approach**

The External Auditor followed a five-step procedure in performing the ESG survey:

**Define the stakeholders**

Figure 10



Based on our understanding of UNIDO’s activities, we identified all groups of stakeholders interested in its projects. They include Member States, donors, UNIDO’s Management and employees, beneficiaries (local communities and governments), suppliers and other UN bodies for mutual projects. Then we analysed which stakeholders are particularly interested in ESG reporting. We analysed stakeholder groups based on the power and interest matrix (see figure 11 below).

We identified stakeholder groups that fell on the right side of the matrix having significant power to influence UNIDO or with a strong interest in its activities. In order to ensure diversity among the respondents, the following group of stakeholders were selected for the survey:

- Member States
- Donors
- Management

**1. Develop the ESG questionnaire**

The ESG questionnaire, which was developed specifically for the UNIDO audit, was divided into two sections. The first section was performed to identify stakeholders’ areas of interest. The second section was to assess the 2020 Annual Report in terms of clarity, indicators comparability, benchmarking and IRPF substance.

**2. Conduct the survey**

The survey was carried out in two ways: online interviews and a written questionnaire. The total number of responses was 42, out of which 71 per cent were provided by Member State representatives.

**3. Interpret the results**

The results are presented in figures 12 and 13.

**ESG survey results radars**

The visual graphs below represent the results of the ESG survey. Figure 12 relates to UNIDO’s external projects and programmes and figure 13 relates to internal processes.

Figure 11. Stakeholders mapping

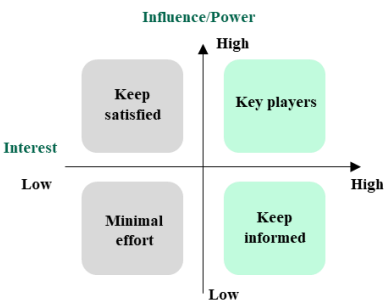




Figure 12. ESG survey results radar for external projects and programmes

## Environmental

1. Waste segregation, recycling (GRI 306)
2. Improvement of energy efficiency (GRI 302)
3. Air and greenhouse gas (GHG) emissions (GRI 305)
4. Water stewardship practices (GRI 303)

## Social

5. Upgrading skills and capabilities of local communities (GRI 203, 404)
6. Maintenance of ethnic, sociocultural diversity (GRI 413)
7. Maintenance of gender balance (GRI 203, 401, 404, 405)
8. Human rights (GRI 408–410, 412)
9. Diversity and equal opportunities (GRI 405–406)
10. Occupational health and safety (GRI 403)

## Economic

11. Opportunities and access to finance for “green” or innovative products and technologies
12. Economic value generated (GRI 201)
13. Indirect economic impact (GRI 203)
14. Opportunities and access to finance for small and medium-sized enterprises (SMEs)
15. Supply chain management (GRI 204)
16. Anticorruption practice (GRI 205)

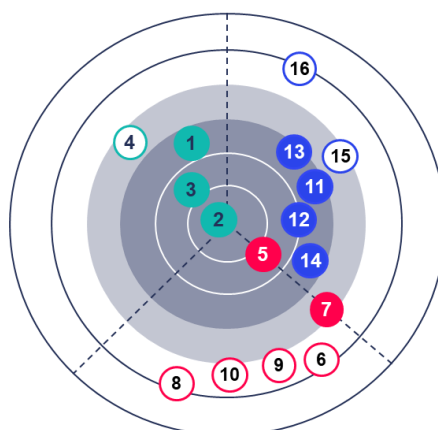


Figure 13. ESG survey results radar for internal processes

## Environmental

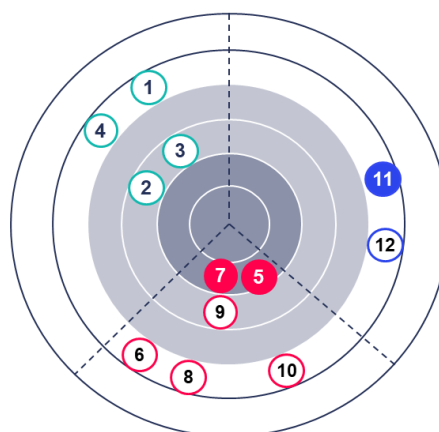
1. Waste segregation, recycling (GRI 306)
2. Improvement of energy efficiency (GRI 302)
3. Air and greenhouse gas (GHG) emissions (GRI 305)
4. Water stewardship practices (GRI 303)

## Social

5. Upgrading skills and capabilities of local communities (GRI 203, 404)
6. Maintenance of ethnic, sociocultural diversity (GRI 413)
7. Maintenance of gender balance (GRI 203, 401, 404, 405)
8. Human rights (GRI 408–410, 412)
9. Diversity and equal opportunities (GRI 405–406)
10. Occupational health and safety (GRI 403)

## Governance

11. Supply chain management (GRI 204)
12. Anticorruption practice (GRI 205)




### Legend for figures 12 and 13 above:

- Material topics area
- Significant topics area
- Topics by E-S-E-dimensions disclosed in the 2020 Annual Report
- Topics by E-S-E-dimensions not disclosed in the 2020 Annual Report



Based on survey results and further analysis, we made the following recommendations.

<p><b>B.1.5. ESG survey</b></p> <p><b>Stakeholder expectations with respect to ESG disclosures are not fully reflected in the Annual Report</b></p> <p> <b>Medium</b></p> <p><b>Recommendation</b></p> <p>We recommend that Management consider incorporating additional disclosures and enhancing the format of ESG reporting by responding to stakeholder expectations</p>	<p>Based on the stakeholder responses, we classified ESG topics mentioned in the Questionnaire into three groups: material, significant and other topics.</p> <p>All the material topics identified by the stakeholders are disclosed in the 2020 Annual Report.</p> <p>However, the following areas are not included under significant topics:</p> <p><b>Related to external processes:</b></p> <ul style="list-style-type: none"> <li>• Water stewardship practices</li> <li>• Supply chain management related to the selection of suppliers and service providers for projects and programmes</li> </ul> <p><b>Related to internal processes:</b></p> <ul style="list-style-type: none"> <li>• Energy efficiency</li> <li>• Reduction of air and greenhouse gas emissions</li> <li>• Opportunities for career progression and remuneration policies</li> </ul> <p>Please refer to figures 12 and 13 above for stakeholders' areas of interest and their coverage in the 2020 Annual Report.</p> <p>We analysed the 2020 Annual Report and made the following key observations:</p> <ul style="list-style-type: none"> <li>• <b>95 per cent</b> of respondents noted that they would like to see comparable indicators from previous years to understand how the indicators have changed.</li> <li>• <b>92 per cent</b> of respondents said that they would like to see qualitative or quantitative benchmark (or KPIs) for indicators specified in the report.</li> <li>• <b>Average score for the clarity of the Annual Report was 3.35.</b> The survey uses a five-point scale where 1 refers to lack of clarity and 5 refers to clear and understandable information that makes it possible to assess the impact of UNIDO's activities at each level.</li> </ul>
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<b>Recommendation:</b>	<b>Status: Open</b>
<p>We recommend that Management:</p> <ol style="list-style-type: none"> <li>Continue practice of communicating with stakeholders in order to reveal stakeholder expectations and areas of interest related to UNIDO's activities.</li> <li>Consider introducing disclosures that are not covered in the Report, including comparative data, benchmarks, etc.</li> <li>Enhance the current format of the UNIDO Annual Report in response to the stakeholder survey.</li> </ol>	

#### Management response:

PARTIALLY AGREE: Comparative data, benchmarks, etc. can certainly be included. However, the Annual Report presents UNIDO activities and stakeholder feedback in a backward-looking and factual manner. Other formats, including the recently conducted Member States survey, the Development Dialogues and other engagement opportunities with Member States are better suited to reveal and incorporate stakeholder expectations into UNIDO strategies and operations.

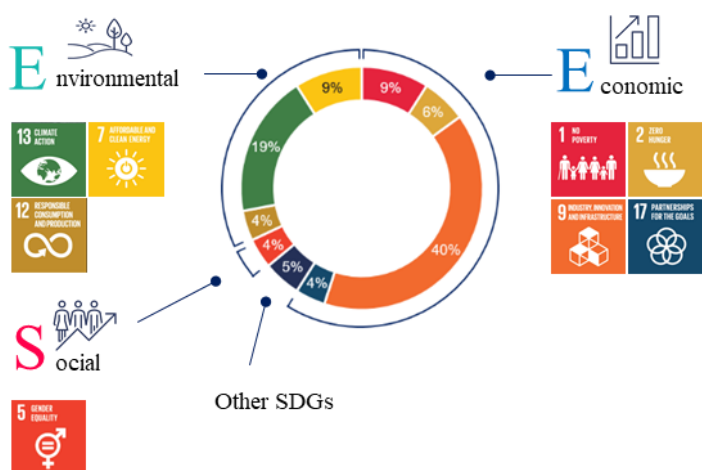
Kindly also note that the Annual Report 2020 is limited in terms of "sustainability reporting" because of the structure of the Programme and Budget it reports against (even though 3.35 seems to be a respectable result on "clarity" of reporting). This is why, in close consultation with Member States, UNIDO adopted a results-based budget starting from the biennium 2022–2023.

**A. Financial audit****B. Performance audit****ESG****Other topics****C. IT and Innovations****STEP 3. Gap analysis**

The gap analysis strategy included two main approaches:

- We analysed the ESG survey results, which showed gaps in the disclosure of some significant topics with corresponding indicators (described in STEP 2 above).
- We analysed UNIDO's disclosures in respect of the achievement of relevant SDGs. Our analysis looked at the total expenditures on UNIDO projects and programmes and the achievement of respective SDGs between 2016 and 2020. As a result, eight key SDGs were identified (figure 14) for further analysis.

Figure 14. Structure of UNIDO expenditures by SDGs, per cent



The GRI standards recommend that a number of disclosures be included in ESG reporting to show progress on the achievement of SDGs. We matched the indicators presented in the Annual Report with the disclosures suggested by GRI related to key SDGs.

**B.1.6. ESG gap analysis**

**Current ESG reporting does not include a number of relevant disclosures**

**High**

**Recommendation**

We recommend Management consider embedding additional disclosures, including those from the GRI

**Environmental impact**

The GRI framework includes fifteen environmental disclosures, but only three of them are addressed by UNIDO in the Annual Report:

- Cumulative reduction of CO<sub>2</sub>eq emissions (ENV.1)
- Cumulative tons of pollutants reduced or phased out (ENV.2)
- Cumulative improved energy efficiency (ENV.3)

According to the disclosures provided by GRI, UNIDO's current indicators could be more specific and detailed. For example, the ENV.1 indicator could be disclosed in accordance with the GRI classification of GHG emissions called scope: direct GHG emissions, energy indirect GHG emissions, other indirect GHG emissions. In addition, the ENV.2 indicator could be extended with information on waste types and pollutant area.

**Social impact**

The following social indicators are presented in UNIDO's Annual Report and can be matched with the GRI framework:

- Number of additional jobs created and jobs retained (SOC.1)
- Number of projects or businesses financed (INV.2), value (\$) of new investments leveraged (INV.3). Together these indicators may be matched with one GRI disclosure "Infrastructure investments and services supported".

At the same time, the GRI provides three more social impact disclosures that can be relevant for UNIDO:

- Ratios of standard entry level wage by gender compared to local minimum wage
- New employee hires by age group and gender
- Basic salary and remuneration of women in comparison to men



**Economic impact**

Currently, the following indicators related to economic impacts are presented in the UNIDO Annual Report:

- Number of firms with economic gains (additional sales, savings) (ECO.1).
- Number of firms with improved labour productivity (ECO.2), Number of firms with an increase in exports (ECO.3). The relevant GRI disclosure matching with these indicators is “Significant indirect economic impacts”.
- Number of projects or businesses financed (INV.2) and value (\$) of new investments leveraged (INV.3), which together represent the GRI disclosure “Infrastructure investments and services supported” and is related to both economic and social impacts.

The GRI provides two more economic impact disclosures that can be relevant for UNIDO:

- Ratios of standard entry level wage by gender compared to local minimum wage.
- Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation.

Recommendation:	Status: Open
We recommend that Management consider additional environmental, social, and economic disclosures to be embedded into ESG reporting practices.	

**Management response:**

PARTIALLY AGREE: as mentioned, the IRPF methodology has been developed based on a detailed theory of change. Indicators were selected based on what can reasonably be measured across a broad range of different projects and initiatives. More indicators, including age and gender disaggregation of indicators, can certainly be added over time – in consultation with Member States.

Concerning GRI social and impact disclosures, kindly note that “*New employee hires by age group and gender*” is already covered by a similar indicator in the current IRPF framework (gender-disaggregated data on indicator SOC.1: *Additional jobs created or retained*). As regards “*Basic salary and remuneration of women in comparison to men*” following ICSC the salary of staff is equal for women and men under the same job series and category.

**EA’s response:**

We appreciate Management attitude and approach to the non-financial reporting. Taking into account that the formulation of new standards and approaches is ongoing, it is essential to consider global initiatives and best practices.

We would like to conclude that IRPF indicators could be expanded to better reflect current ESG practices. GRI standards are the starting point in the analysis of existing indicators, and some IRPF indicators could be updated. For example, indicator SOC.1: “Additional jobs created or retained” corresponds with GRI indicator “New employee hires and employee turnover” and does not cover disclosure by age and gender. GRI indicator “New employee hires by age group and gender” aimed to cover such disclosure that is not reflected in IRPF. In our opinion, the introduction of such information may benefit the Organization and make IRPF indicators better fit ESG best practices and existing global initiatives.

## A. Financial audit

## B. Performance audit

ESG

Project implementation

Other topics

## C. IT and Innovations

## B.2. Project implementation

## Background

In FY 2020, we performed the assessment of overall project management function in UNIDO in accordance with ISO 21500 “Guidance on project management”. The assessment included several dimensions, involving 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. In order to analyse UNIDO’s project management practice we performed a project management maturity assessment that was structured in 12 elements.

In FY 2021, we continued the analysis and performed the assessment of six selected projects to see how UNIDO’s project management practices are applied in specific cases and whether their application is consistent from project to project. The projects were selected based on criteria such as budget, type of donor, implemented technology, and region. The full list of selected projects is presented below.

*Table 1. Projects selected for assessment in FY 2021*

Nº	Project	Country of implementation	Assessment type
1	Strengthening capacity for operation and maintenance with Internet of Things technologies for Olkaria Geothermal Power Station in Kenya	Kenya	Project implementation
2	Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership	Ethiopia	Project implementation
3	Support to technical and vocational training for Liberia’s youth	Liberia	Project implementation
4	HCFC Phase out Management Plan (Stage II)	Mexico	Project hand-over
5	Sustainable and inclusive industrial development of the automotive supply chain in Colombia through enhanced quality and productivity	Colombia	Project impact
6	Environmentally Sound Management and Final Disposal of PCBs at the Russian railroads network and other PCB owners (Phase I)	Russian Federation	Project impact

Depending on the project status, we performed one of the below types of assessment:


- **Assessment of project implementation.** It is conducted based on the methodology already used in FY 2020 and presupposing the project analysis according to 12 areas, including scope, benefits management, financing, relations with stakeholders, risks, procurement and others.
- **Assessment of project hand-over.** One of the selected projects underwent a change of the project manager and on-the-ground project team, so we focused on the assessment of project hand-over efficiency.
- **Assessment of project impact.** We selected recently completed projects to evaluate them against the quality criteria identified in the UNIDO Quality Assurance Framework: efficiency, effectiveness, sustainability and impact.

We visited project sites and met the on-the-ground teams of three projects implemented in Kenya, Ethiopia and Colombia, that provided a valuable insight into the conditions of project implementation as well as the opportunity to meet the projects’ beneficiaries. We observed how truly challenging and constantly changing the circumstances may be for the project teams. It requires a balance between a well-developed, detailed project plan and modern flexible project management approaches, that allow for timely reactions to the changing situation, but stick to the achievement of the final aim.



We noted that one of the most important areas with room for improvement in UNIDO’s project management function is a monitoring process and the tracking of project progress. It was identified that all selected projects have logical frameworks (logframes) with project goals, outputs, outcomes and related indicators, but the progress tracking against those indicators sometimes is not established. Normally, the reports stipulate whether the particular activity from the logframe is ongoing or completed, but do not assess the degree of work completion or the dynamics of the indicators’ achievement. If the assessment exists, it does not have a proper justification. At the same time, both project team and stakeholders, including donors, could greatly benefit if they had the status of the project progress within the established indicators and timeframes, which would help in taking proper action in case of any difficulties.

Based on the projects assessment results, we have identified several areas that require improvement.

<b>B.2.1. Project implementation</b>	Within the projects analysis, we identified that project documentation is prepared in accordance with Guidelines on technical cooperation programmes and projects (TC Guidelines), and budgets are broken down by activities and TC budget lines.
<b>Insufficient budget justification</b>	At the same time, TC Guidelines do not contain templates for the calculation of budget amounts and documenting rationale and assumptions as the basis for such calculations. In this regard, we noted the budget amounts for selected projects that represent a rough estimation and do not have any detailed calculations or documented assumptions, e.g. estimated costs of national or international experts for the project in Kenya do not include information about the required number of such experts, duration of their engagement, range of monthly fee and additional related costs.
 <b>Medium</b>	In addition, we noticed that some project managers use their own templates to perform detailed budget calculations with the justification of the indicated amounts, although such calculations are not standardized, and the project managers independently determine the algorithm for such calculations.
<b>Recommendation</b>	
We recommend developing a template for calculation of all necessary costs on the project and ensure the control over its application	

<b>Recommendation:</b>	Status: Open
We recommend Management develop a standard detailed template for the calculation of all necessary costs on the project by TC budget lines including documenting assumptions/rationale behind those calculations and include the template into TC Guidelines and policies, for example, into a new Administrative and Operational Guidelines for the Life Cycle of Development Cooperation Programmes and Projects (DCGs).	

**Management response:**

AGREE: Project budget planning should enable certain flexibility to meet the different implementation challenges, and currently varies within some limits, depending on Donor requirements and project complexity. UNIDO recognizes that it is possible to further harmonize or standardize the budget plan through a general template that can be tailored in accordance with the country or region-specific conditions (e.g. apply common fee for national and international experts, assign cost of local travel, flight cost and number of missions, etc.). However, the approach should not lead to one size fits all, and may need to differentiate according to project sizes, still allowing flexibility for contextualizing it. The new Technical Cooperation Guidance will consider introducing such a template, encompassing the Full Cost Recovery template and thus integrating all potential costs associated to a TC programme/project.

## A. Financial audit


## B. Performance audit

ESG

Project implementation

Other topics

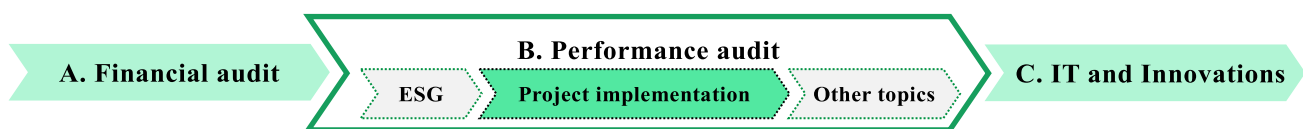
## C. IT and Innovations


<b>B.2.2. Project implementation</b>	Within the implementation of the Integrated Results and Performance Framework (IRPF) system developed in 2020, one of the main changes for PMs was the requirement to set project performance indicators in accordance with IRPF indicators. We identified on the selected projects that IRPF indicators were defined formally without detailed guidance and sufficient training.
IRPF indicators on the projects are set formally and may be not appropriately reviewed	We recognize UNIDO efforts to organize trainings and provide personal explanations regarding IRPF implementation, and we encourage UNIDO to keep working with project managers in this respect by providing more detailed and practical explanation and training on how to apply the IRPF concept, how IRPF indicators reflect the achievement of outputs and outcomes and how to select and identify targets for IRPF indicators.
 <b>Medium</b>	
<b>Recommendation</b>	We admit the transitional period to new practices can take time, therefore, we encourage Management to formalize the process of training, communication and support to establish effective channels of communication and successfully upgrade necessary skills of personnel with respect to IRPF application.
We recommend continued communication and practical training on the IRPF application	

<b>Recommendation:</b>	Status: Open
<p>We recommend UNIDO Management:</p> <ol style="list-style-type: none"> <li>Keep working with project managers delivering communication and practical trainings regarding the nature and application of new IRPF, selection of IRPF indicators for specific projects and setting targets for them.</li> <li>Encourage PMs to revise IRPF indicators on the ongoing projects and update them based on the training results in accordance with the IRPF.</li> <li>Establish internal control procedures on a regular basis over the correctness of IRPF indicators set on the projects.</li> </ol>	

**Management response:**

AGREE: As mentioned, UNIDO is already working on providing more systematic support and guidance. At the same time, IRPF indicators should not be revised by PMs as they follow the established IRPF and, in the case of technical cooperation projects, have been agreed upon with donors and partners in signed project documents.



<b>B.2.3. Project implementation</b>
<b>Criteria for midterm and terminal evaluation are not clearly defined</b>
 <b>Medium</b>
<b>Recommendation</b>
We recommend that specific criteria for project evaluation are anchored in the Evaluation policy or TC guidelines and post evaluation is launched

UNIDO TC Guidelines stipulate that programmes and projects are completed with independent evaluation. Currently, the independent evaluation in the form of midterm or terminal evaluation is mandatory for the projects exceeding \$2 million budget and/or triggered by donor requirements.

At the same time, UNIDO's Evaluation Policy does not contain the definitions and conditions of midterm, terminal and ex-post evaluations, i.e. it is not clear when during the project life cycle midterm or terminal evaluation shall take place. Project documentation does not always contain clear timelines for evaluations as well, and the project deadlines often shift so it may be difficult to track when to start the evaluation.

On the projects that we selected for FY 2021 project implementation assessment, we analysed two types of evaluation and identified the following:

- **Midterm evaluation:** on the project in Ethiopia, midterm review was performed only one year before the end of the seven-year project, while on the project in Kenya the midterm review was conducted in the middle of the project timeline. As there is no clear guidance when the midterm review should be performed during the project life cycle, timing for midterm review may vary. As a result, conducting midterm evaluation at the later stage of the project may not allow for the timely correction of PMs actions and may impair the value of such evaluation.
- **Terminal evaluation:** on the project in Kenya, terminal evaluation was performed before the project termination, and there were no project results to be assessed. Taking

into account financial constraints, terminal evaluations cannot be performed after the project is finalized because any additional expenses after the finalization of the project shall be incurred through extrabudgetary TC funding. As a result, at terminal evaluation it is possible to assess the achievement of outputs but not of the project impact.

Moreover, upon inquiry with UNIDO field offices, we understand that real assessment of project results is possible only after some time, when the project is fully completed, and the project impact becomes visible. We also note that UNIDO's projects are expected to have a long-term impact. Currently, UNIDO does not have sufficient appropriate mechanisms for long-term impact assessment after project completion. Consequently, it is difficult to assess the real long-term benefits of the projects, support a "learning loop" and drive the sustainability of project results.

UNIDO could lose important lessons learned that would be relevant for future projects without timely midterm and terminal evaluation as well as long-term assessment.

<b>Recommendation:</b>	<b>Status: Open</b>
We recommend Management:	
<ol style="list-style-type: none"> <li>Complement UNIDO's Evaluation Policy with the definitions of midterm, terminal and ex-post evaluations, as well as their timing within the project cycle.</li> <li>Encourage PMs to specify in the project documentation specific deadlines for independent project evaluations as well as a person responsible. This could help in further project evaluation and strengthen internal controls.</li> <li>Develop funding mechanisms for impact assessment after project completion, as well as identify criteria for selection of projects subject to ex-post evaluation.</li> </ol>	

#### Management response:

Overall, the assessment provided from the external auditor is well noted and appreciated. However, it misses several important contextual elements that should be further considered:

- For assessing and reporting on results (outputs, outcome and impact) a major role and responsibility is on management, to ensure all projects and programmes are duly covered by the "Monitoring and Reporting" function.
- The EIO independent evaluation function (3rd Line), as assurance provider, should certainly play its role, through conducting independent evaluations. As per current context in TC (extrabudgetary funding), independent evaluations can only be conducted while the project/programme is operational, Hence, only independent midterm or terminal evaluations can be foreseen.

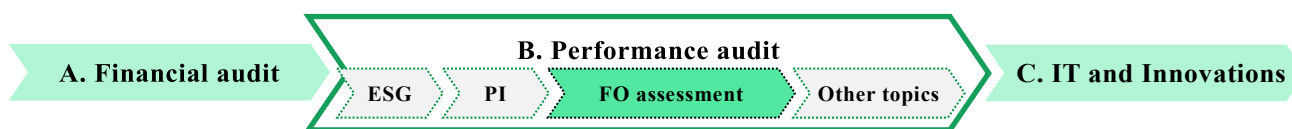


On the above basis, EIO specific response to the recommendations is:

(a) **DISAGREE:** The UN evaluation functions has strong clarity and understanding on the definitions, criteria and objectives for each type of evaluation. Further, the UNIDO Evaluation Policy, the UNIDO Evaluation Manual, and the EIO guidelines and templates provide adequate definition of the current types and categories of evaluations that currently are conducted in UNIDO. Particular emphasis is provided to the important difference between the TC management responsibility (Monitoring and reporting function) vs the independent evaluation function.

(b) **PARTIALLY AGREE:** UNIDO Evaluation Manual (Section 4) provides the guidance and details for Project Managers for proper consideration while formulating and budgeting TC projects/programmes, in relation to independent evaluations (midterm or terminal). TC Management will be requested to ensure compliance with relevant provisions and make explicit reference in project documents the resources, roles and responsibilities for evaluations.

(c) **AGREE:** EIO conducting ex-post evaluations, to independently assess outcome and impact of projects/programmes is dependent on availability of adequate funding. EIO will keep exploring options to address this constraint.



### B.3. Field offices assessment

#### Background

UNIDO maintains a field network comprising of 48 Field offices (FO) around the world. The Africa region has the biggest number of field offices – 19, or 40 per cent of the total number of field offices, including two Regional Hubs and one Regional Office. We visited the Regional Hub in Ethiopia and the Country Office in Kenya to analyse the functioning of selected UNIDO field offices and make an assessment of the current FO system efficiency.

Terms of Reference (ToR) for UNIDO Field Offices is the main document regulating field network, that includes the following common FOs functions:

- Representation, communication and engagement with Governments and partners.
- Delivery of technical assistance.
- Monitoring and reporting.
- Resource management.

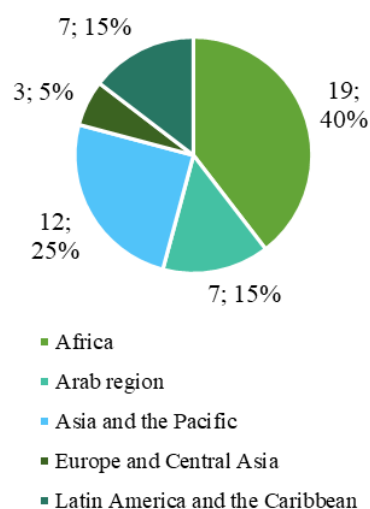
Regional Hubs and Regional Offices also have additional functions regarding strategic and programmatic leadership and technical guidance as well as contribution to the development and implementation of regional strategies, programmes, and projects in the coverage region.

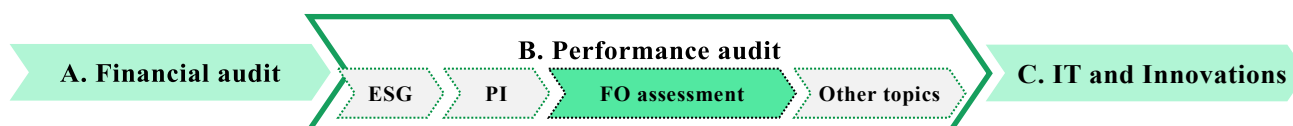
During FOs assessment, we noticed that FOs are generally compliant with ToR, however, not all functions stipulated in ToR are performed on a constant basis. In particular, FOs participation in TC delivery depends on personal enthusiasm, prior experience and connections with HQ. Even though FOs are supposed to be involved in the full cycle of project delivery, in practice FOs staff is mostly involved in the project planning stage, and their involvement in project delivery is limited to communication with local governments and partners, formal participation in project steering committees, project site visits together with other team members and stakeholders. In a nutshell, FO staff do not have their specific assigned role and responsibilities within project implementation.


We note that in FY 2021, UNIDO developed a cost-benefit analysis aimed at evaluating FOs' involvement in the TC delivery. This analysis was piloted for several FOs in the Latin America region. However, the analysis has not yet resulted in specific recommendations or a management action plan. The further application of the mentioned analysis is currently uncertain as well as whether it can be used to justify FOs network structure or to suggest its amendment. In order to empower FO staff, we recommended in FY 2020 conducting professional skills assessment, identification of necessary skills and competencies, assigning additional functions and authority to FO staff based on the assessment, including deeper involvement in project implementation. We consider this recommendation to still ongoing.

As a result of FOs assessment, we have identified the following area for improvement.

Figure 15. UNIDO Field Network





<b>B.3.1. FO Assessment</b>
<b>Communication between FOs and HQ requires improvement</b>
 <b>Low</b>
<b>Recommendation</b> We recommend strengthening the involvement of FO staff in the preparation of documents regulating FO' work and improving communication between FOs and HQ

With 48 FOs scattered around the globe, UNIDO still has a high level of centralization, and most decisions considering the operations and functions of FOs are taken in HQ. We acknowledge that FOs have the opportunity to raise any challenges and open issues related to the guidelines, templates, other policies and documents that regulate their work, for instance, during the discussions at the quarterly meetings. Whenever appropriate, UNIDO Representatives (URs) are invited to contribute to the drafting of such documents, for instance URs were invited to contribute with case studies to the drafting of UNIDO's Field Handbook issued in 2021.

At the same time, as part of FO assessment we concluded that FOs are not always involved in preparation of guidelines, policies and other documents or their comments are not always taken into account, the documents do not always reflect the reality of the field offices' daily operations, their challenges and decisions that need to be made. It may lead to inefficiencies in FO operations

due to a mismatch of procedures stipulated on paper and the actual situation on the ground.

We would like to note that most UN organizations have decentralized some of their activities to territorial offices, with varying levels of governance of these offices. Similarly, we recommend UNIDO consider potential areas where FOs could be given more authority based on their skills, understanding of the local peculiarities and ability to quickly react to the changes in the on-the-ground circumstances. Coordination between HQ and FOs could be improved, inter alia, through changes in existing reporting channels, including both written reports and conference calls.

We noticed that monthly and annual written reports prepared by different FOs and provided to HQ differ in terms of the format, level of detail and completeness of information, although there is an established template. In addition, reports do not disclose FO activities in TC delivery, we understand it would require ISA holders reporting to FO staff on their project-related activities. Another reporting channel for FOs is biweekly conference calls between FOs and HQ with the purpose of enhancing coordination and ensuring overall integration, programmatic coherence, and operational efficiency. However, we noticed that the prepared minutes do not allow for the tracking of a FO's progress against their goals/workplans, or for the identification of the challenges FOs are facing and what actions should be taken to mitigate them.

<b>Recommendation:</b>	<b>Status: Open</b>
We recommend the following:	
a. Strengthen FO staff involvement in preparation of documents regulating the FO's work or used by FO staff in their operations.	
b. Include a list of specific projects with FO involvement in standard reporting templates, specify activities performed with respect to those projects. It will allow for an understanding of the workload and the involvement of FOs in TC projects, keeping the responsibility of PMs for the projects.	
c. Add FO workplans to biweekly minutes of meetings between FOs and HQ that would allow for the tracking of an FO's progress.	
d. Continue to foster a culture of giving on-the-spot feedback to FOs.	

#### Management response:

a. **PARTIALLY AGREE:** PFC already involves, whenever appropriate, FOs in the preparation of documents regulating FO work or used by FO staff in their operations, e.g. UNIDO's Field Handbook. PFC will continue with this established practice.

b. **AGREE:** Even if a FO could provide only a partial overview of TC activities in a given country, FOs will be invited to report on their contributions to TC work in their monthly updates.

c. **PARTIALLY AGREE:** PFC (Regional Coordination Divisions) will revise the templates used to prepare the minutes of the biweekly conference calls between FOs and HQ to enable the tracking of FOs' progress against their goals/workplans, as well as to identify the challenges FOs are facing and what actions should be taken to mitigate them.

d. **AGREE:** PFC will continue to foster a culture of giving feedback to FOs, particularly through the Regional Coordination Divisions.



## B.4. Resource Optimization in Technical Cooperation (ROTC)


### Background

UNIDO, as a specialized agency, performs the technical cooperation function to help Member States build and strengthen their capacity in industrial development. To achieve its goals, UNIDO continuously improves the approach to technical cooperation. In particular, in July 2021, UNIDO issued the new policy of Resource Optimization in Technical Cooperation (ROTC), which describes a new approach to delivering technical cooperation aimed at maximizing impacts, reporting on results, improving efficiency, increasing transparency and focusing on normative and strategic functions.

The policy includes five focus areas identified for resource optimization in the TC cycle:

- Standardization of TC services through programmes/modules
- Segregation of functions along the TC cycle
- Expansion of the workforce using TC voluntary resources
- Shared services for procurement functions
- Shared services for recruitment functions

We assessed the status and implementation plans for all areas and prepared recommendations on potential improvements.

<b>B.4.1. ROTC</b>	Within the implementation of ROTC Policy, UNIDO developed two types of shared services: procurement and recruitment. Currently, each TC Department has its own dedicated team responsible for procurement and recruitment processes.
<b>Centralization of medium value procurement</b>	Whereas the recruitment process within ROTC is rather simple and consists of few steps, the procurement process is complex and time-consuming (refer to figure 16).
 <b>High</b>	Before ROTC implementation, External Auditors of UNIDO repeatedly emphasized frequent errors in shopping carts and purchase orders (e.g. incorrect delivery date, item type, breakdown of goods and services) that subsequently affect the Financial statements. Such errors primarily occur in decentralized procurement performed by less qualified procurement staff.
<b>Recommendation</b>	We take note of the efforts undertaken by UNIDO with the introduction of the ROTC shared procurement function. At the same time, we have concerns that the creation of ROTC teams in TC departments will not significantly increase the quality and efficiency of procurement process since we observed that in practice, some ROTC team members continue performing the tasks and duties they had before ROTC involvement (for example, teams from Department of Digitalization, Technology and Innovation), and the procurement functionality is an additional burden. Due to the

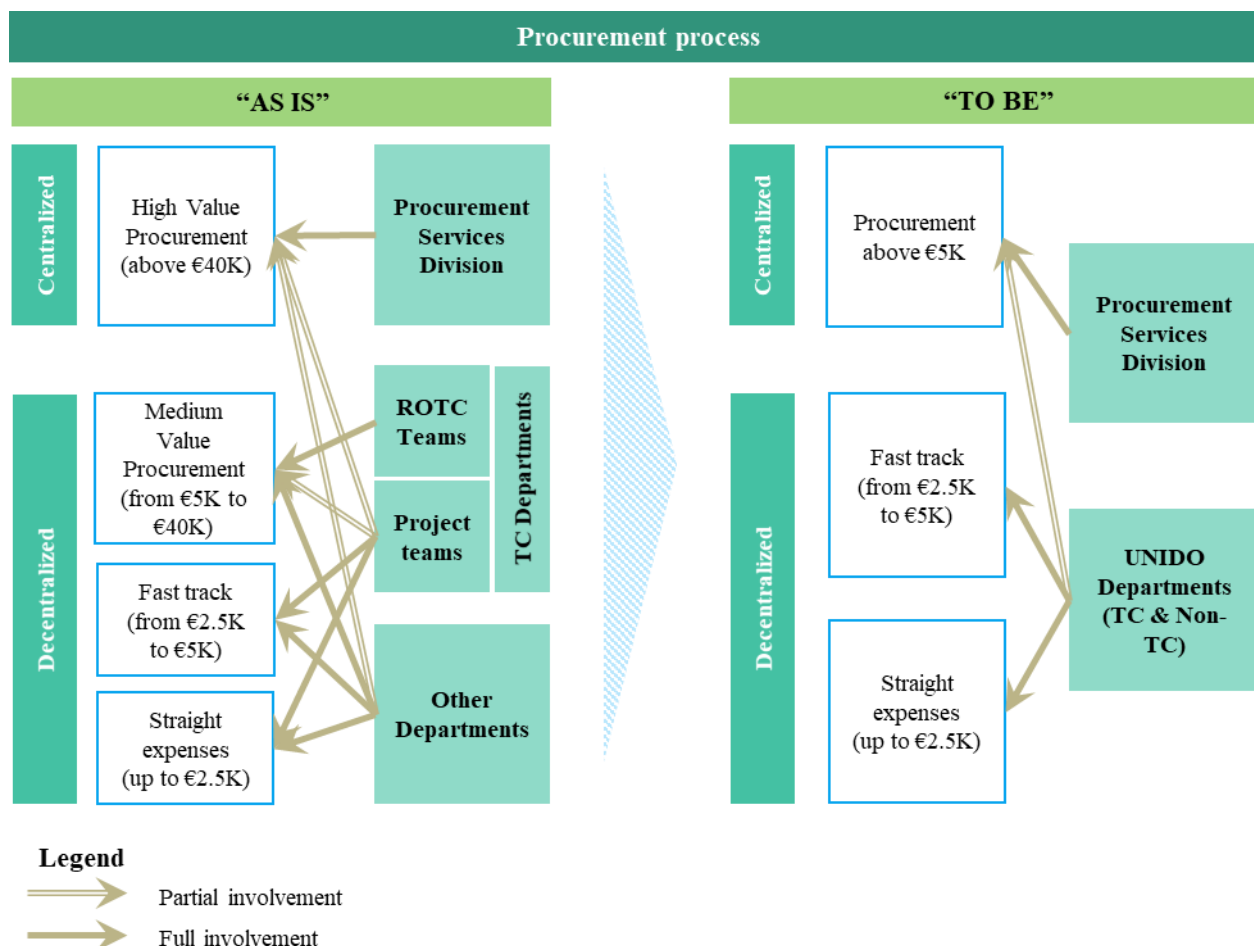
high workload of ROTC team members, procurement transactions are susceptible to errors. In addition, the TC staff assigned to ROTC teams may not have enough experience and/or qualifications applicable to procurement staff. Hence, they may be prone to committing errors or may be heavily dependant on the advice and guidance of the Procurement Services Division. This does not serve the objective of improving efficiency. We have also noted that the procurement function in UNIDO and in the UN is becoming more professionalized and standardized. In this respect, the Procurement Services Division staff have recently received professional certification training from the UN-endorsed Chartered Institute of Procurement and Supply (CIPS).

In view of the above, reduction of errors, gains in efficiency and optimization of procurement function could be achieved by merging the procurement function into one division, transferring all procurement above €5,000 to the Procurement Services Division, subject to additional human resources. In this case, it will be carried out by procurement specialists with relevant experience, knowledge and qualifications. In addition, it would lead to the higher reduction of operating costs by optimizing staff and eliminating duplicate functions as well as improving the quality and speed of operations performed.

We prepared figure 16 below to illustrate the observation and recommendation as mentioned above. Taking into account that transactions in total are material and susceptible to fraud, we concluded that business process redesign would be beneficial for UNIDO.



Figure 16. Procurement process in UNIDO

**Recommendation:**

Status: Open

We recommend Management delegate medium value procurement functions (from €5,000 to €40,000) to the Procurement Services Division. Such a centralized approach will streamline the procurement process, make it less complicated, increase the quality and efficiency and will free project managers from routine administrative tasks, allowing them to focus on project implementation.

**Management response:**

**PARTIALLY AGREE:** Reduction of the administrative burden of project managers was one of the primary objectives of ROTC. Centralization of procurement functions from €5,000 upwards would require an extensive analysis.



<b>B.4.2. ROTC</b>
<b>Implementation of ROTC pilot requires ongoing analysis and monitoring</b>
<b>⚠ Medium</b>
<b>Recommendation</b> We recommend conducting the analysis of ROTC effectiveness and implementing timesheets mandatory for regular and temporary staff

The implementation of the new ROTC policy was piloted in the Department of Agri-Business with further implementation in the rest of the TC Departments based on the pilot results. While the new ROTC policy is supposed to increase the efficiency in TC departments, there are no statistical data supporting this statement. In particular, there are no data on the time and other resource consumption prior to ROTC implementation compared to expected benefits.

On the one hand, there may be clear advantages of ROTC, such as the decrease in contracts signed with ISA holders within a year, resulting in a corresponding decrease in amount of time spent on their administration. On the other hand, there may be less evident areas of improvement/optimization that would require numerical assessment and statistical comparison which could help make further informed and data-based decisions in the ROTC implementation or other resource optimization initiatives.

Assessment of the ROTC economy, effectiveness and efficiency requires data which can be gathered via implementation of detailed timesheets for the departments where ROTC is rolled out. In addition, timesheets implementation could benefit other areas within UNIDO, namely:

**Results-Based Budget (RBB):** Timesheet implementation will allow for the allocation of work time among five new RBB results properly, e.g. while a PM's time spent on the projects is going to be allocated among five RBB results based on:

- Mapping of projects and budget results, and
- Share of specific project costs in total costs of all projects assigned to the project manager, the remaining time, including business development, trainings or other activities, currently do not have a basis for allocation among RBB results. The timesheets would indicate this time and its connection with proper RBB results.

**Full cost recovery (FCR):** Timesheets will be useful for calculating the actual staff costs incurred for a specific project. E.g. L-staff can be assigned to several projects, but since they do not fill in timesheets, there is no information about actual time spent. In addition, timesheets will lead to a more accurate calculation of price lists for direct service costs (DSC) that are based today on survey results which is an estimate and might be done roughly.

**Business operation services (BOS):** Timesheets are necessary for proper comparison of BOS prices suggested by UN Secretariat with actual UNIDO costs. Lack of knowledge about actual costs does not allow for assessing whether the BOS prices are beneficial for UNIDO.

<b>Recommendation:</b>	<b>Status: Open</b>
We recommend conducting the analysis of ROTC effectiveness including the following steps:	
a. Identify KPIs to be assessed within the analysis before and after ROTC implementation.	
b. Perform a baseline study of above KPIs, collect data and perform analysis.	
c. Implement timesheets for all UNIDO staff and ISA holders	

#### Management response:


**PARTIALLY AGREE:** The assessment of ROTC is already planned to be done in collaboration between EIO and AGR. The assessment will be done at two levels: **(1) strategic, and (2) operational**. The strategic level assessment is required to understand/reach an agreement if the five pillars of ROTC are strategically relevant for the transparency, efficiency, increased normative function, flexible specialization, breaking silos, and increasing teamwork within and between departments and divisions, avoid competition between the PMs which has reduced the information flow, etc. The second level is more on the operational efficiency and if the processes and standard operating procedures are sufficient or can be further optimized.

Time is not the only indicator of the resource optimization. The more relevant KPIs, including comparing the time required for different process before and after ROTC will be considered.

Prior to implementing timesheets for all personnel working on TC projects:

- It is necessary to conduct a cost/benefit analysis, by a cross-organizational team to develop further proposals for mandatory compliance by UNIDO staff and ISA holders who work on TC projects for consideration by the Leadership Meeting.
- Following the Leadership decision, changes will be needed to policies/procedures and the Enterprise Resource Planning (ERP) system to start the introduction of mandatory recording of total time for all TC project-related activities.



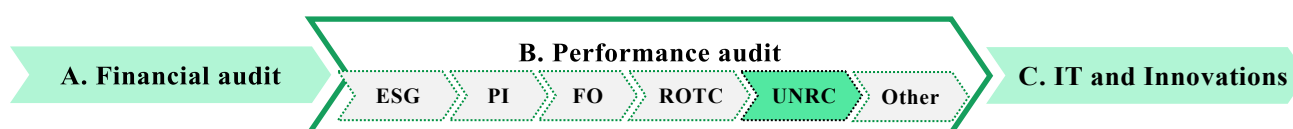
<b>B.4.3. ROTC</b>	Within new ROTC policy, it is planned to segregate PMs' functions along the TC cycle and divide them into two groups:
<b>Segregation of PM duties during the project cycle is not formalized</b>	<ul style="list-style-type: none"> <li>• A group responsible for the project development, monitoring, reporting and evaluation. This group shall have both extensive knowledge of existing UNIDO policies and technical expertise necessary for the project document development. It is based at UNIDO HQ.</li> </ul>
 <b>Low</b>	<ul style="list-style-type: none"> <li>• A group responsible for the project implementation. These project managers are expected to be based at HQ and on the ground, in the country of project implementation, and manage the project team or perform project-related activities themselves.</li> </ul>
<b>Recommendation</b> We recommend preparing a detailed instruction that stipulates the roles and responsibilities of different PM groups	We recognize the rationale behind the proposed segregation of duties and observed such segregation on one of the projects selected for assessment in FY 2021. We believe this new process may bring positive impacts on TC delivery and raise its efficiency.

At the same time, we note that the proposed segregation of duties is currently not clearly formalized in any official UNIDO document and requires higher level of details such as: specific roles and responsibilities of each PM group, activities and tasks to be performed within their area of responsibility, communication and cooperation guidelines, procedures for any misunderstanding/conflict resolution. Development of detailed guidance would help to avoid communication inefficiencies, difficulties in cooperation, duplication of functions, lack of accountability and other potential problems.

<b>Recommendation:</b>	<b>Status: Open</b>
We recommend that Management prepare a detailed guidance that stipulates the roles and responsibilities of PM groups involved in technical cooperation. In particular, such document should contain the following: <ol style="list-style-type: none"> <li>Job descriptions, including specific roles and responsibilities of each group of project managers, activities, and tasks to be performed within their area of responsibility.</li> <li>Accountability framework, indicating reporting mechanisms, subordination between two PM groups as well as communication channels and cooperation principles.</li> <li>Procedures for conflict resolution should any misunderstanding arise between PMs from different groups of the same project.</li> </ol>	

#### Management response:

AGREE: The job descriptions for all project managers at different levels (P2–P5 and L2–L5) have been prepared, functions and responsibilities clearly defined, and reporting lines clarified and are awaiting the promulgation of the delegation of authority.




## B.5. UNRC

### Background

UNIDO is currently participating in the United Nations Development System (UNDS) reform started in 2019, which includes the UN Resident Coordinator system (UNRC). The UNRC system aims to bring together different UN organizations and agencies to improve the efficiency and effectiveness of operational activities at the country level. It is considered to be an additional channel for extending the number of projects implemented by UNIDO and is supported by:

- Participation in UN country teams (UNCTs) for strengthening UNIDO's visibility and promotion of its mandate. UNIDO is a member of 99 of the 132 UN country teams worldwide.
- Opportunity to be involved in UN activities in 51 countries where UNIDO is a non-resident agency and obtain support from Resident Coordinators (RCs) in terms of engagement in strategic partnerships.
- Increase in the number of joint programmes with UN entities funded by special funds within the UN system (such as SDG fund) or funded by different sources but implemented jointly.

B.5.1. UNRC	UNIDO's contribution to the UNRC system for 2020–2021 constitutes \$5.2 million. It represents quite a significant expenditure item and, therefore, is a subject of interest in relation to the benefits it may bring. In this regard, we performed cost-volume-profit analysis of UNIDO's participation in UNRC system in 2019–2021.
Benefits from participation in the UNRC system shall be considered on an ongoing basis and reported	Currently, there are six projects obtained with UNRC support and financed by "UN Joint SDG Fund" and "UN COVID-19 Response and Recovery Fund". While total budget amount of these projects is about \$10.5 million, funds received in 2020–2021 for projects' implementation constitute only \$0.5 million, that is around 10 per cent of UNIDO's payment to the UNRC system. However, we admit that the budget commitments under current projects until 2025 will reach more than 60 per cent of UNIDO's payments for 2020–2025. Assuming the increase in the number of projects supported by RCs, the return on UNIDO's contribution to the RC system will be higher over time and break even in the near future.
 <b>Medium</b>	
<b>Recommendation</b> Continue making efforts in keeping Member States informed regarding the efficiency of UNIDO's participation in the UNRC system, introducing the financial and non-financial indicators with the relevant targets	In addition to the future financial benefits, we consider that UNIDO's participation in the UNRC system also plays an important strategic role because UNIDO stays up to date with the activities of other UN agencies, and UNIDO's mandate is promoted across the UN system. This leads to obtaining new projects and increasing the number of joint programmes. It is worth noting that many UNIDO employees recognized the positive trend of collaboration with RCs.

Recommendation:	Status: Open
Taking into account Management progress in UNRC implementation, we recommend Management: <ol style="list-style-type: none"> <li>Continue evaluating the efficiency of participation in the UNRC system and make efforts to inform Member States about its results. For this purpose, the relevant chapter may be included in the Annual Report.</li> <li>Consider developing specific financial and non-financial indicators for tracking the progress towards the achievement of efficient and effective collaboration with RCs and set relevant targets, e.g. number of projects obtained within UNRC, amount of funds raised.</li> <li>Communicate to RCs UNIDO's objectives and plans for the forthcoming biennium to enhance the efficiency and effectiveness of collaboration. For example, UNIDO may specify its interest in innovations to obtain relevant projects from UNRC.</li> </ol>	

### Management response:

**PARTIALLY AGREE:** The suggestions made are interesting and worthwhile to pursue. At the same time, the RCs are part of a system that is also steered by UNIDO at a higher level (e.g. via the UN Sustainable Development Group, which the Director General participates in), not just at the country level. Also, UNIDO derives its legitimacy, visibility and reputation from the UN system as a whole, including the RC system. The RC system develops country strategies and analyses and coordinates UN activities – UNIDO cannot just opt out of this on the basis of a cost-benefit analysis. Rather, UNIDO's benefit is likely to be proportionate to its engagement in the UNRC system and the wider UN reform process.



Further, Managing Director, PFC will continue its practice to communicate to RCs UNIDO’s objectives and plans to enhance collaboration with relevant, newly appointed RCs. Please note that the focus on current communication is not on individual projects but rather cooperation at large. PFC might also seek to establish contacts with selected existing RCs, as appropriate and whenever feasible.



## B.6. Human resources (HR) assessment

### Background

UNIDO employees are the key driving force behind the delivery of UNIDO projects and programmes, and, as such, are the Organization's most valuable resource. In FY 2021, the headcount included a total of 2,298 people, including 686 staff members and 1,612 ISA holders (see figure 17).

Human resource management represents an important function in UNIDO that has both a direct and indirect long-term effect on its performance. With this understanding, we assessed the efficiency of HR processes, including a benchmark analysis based on key metrics, performance indicators and best practices.

In general, UNIDO has the appropriate HR processes in place, although we identified some areas for improvement. In the next paragraphs, we would like to touch upon some additional HR-related topics that also deserve attention.

### Onboarding

We observed that UNIDO has a limited onboarding system that primarily includes the following steps:

- The Department of Human Resources Management (HRM) communicates with newcomers regarding mandatory training and general information including contacts for resolving different administrative issues.
- The Chief of Division or another supervisor communicates with newcomers on the professional topics and tasks.

At the same time, there is no formal control over onboarding (i.e. whether newcomers participated in mandatory trainings or demonstrated their acquired knowledge on the job).

Newcomers are not always assigned buddies to supervise their integration into UNIDO and provide advice. The existing mentorship programme has a limited coverage. As a result, it may take longer for newcomers to start performing at their best. The absence of a mentoring programme could even lead newcomers to perform at a subpar level or to become frustrated in their position and seek employment elsewhere.

Therefore, we encourage UNIDO to perform the following:

- Prepare a checklist of mandatory actions, useful links and contacts, trainings, hints and tips for newcomers (e.g. how to use printers, how to request stationery).
- Require that project managers provide coaching to newcomers (include this in their job descriptions).
- Carry out regular performance assessments of newcomers.

### Employee retention strategy

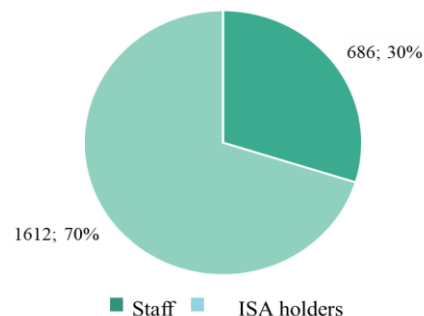
Currently, it is quite challenging for UNIDO employees to move up the career ladder. Many do not get promoted for several years, despite gaining experience and knowledge, as well as new areas of responsibility (often dictated by a lack of resources). This ultimately leads to an increase in workload without compensation.

We believe UNIDO could benefit from developing a strong retention strategy that would address employees' career development needs, including clear career tracks, options for horizontal transfers and learning opportunities. The retention strategy should specifically address the issues and risks related to the retention of valuable ISA holders giving them a clear path into the Organization as regular staff, providing social guarantees, etc.

Young and ambitious employees sometimes come to work for UNIDO and leave after several years due to the lack of career growth or not receiving a regular staff position. They may know in advance about the lack of career growth opportunities and only accept UNIDO's offer to gain UN experience for their résumés. This situation leaves UNIDO in a weak position both in terms of employer brand on the market (making it a "transfer point" on the way to other jobs) and in terms of constant turnover of personnel (requiring that resources be spent on hiring and teaching new people).

Therefore, UNIDO could consider analysing the specific characteristics of those positions where turnover is high and, depending on the analysis, refocus its recruitment efforts. For example, if a position does not provide opportunities for career growth (secretary, administrative assistant, etc.), recruitment could change focus from hiring young and ambitious graduates to hiring other categories of candidates who are not seeking to build a fast-growing career but rather are looking for a stable job in an inclusive environment (e.g. senior people, people with disabilities, etc.).

Figure 17. Ratio of UNIDO staff





## UNIDO HR strategy

As part of the assessment of the HR function, we identified that UNIDO recently developed a human resources strategy (HR strategy) for 2020–2022 along the following organizational pillars:

- **Pillar 1. Institutional strengthening (B.6.1):** Achieving qualitative improvements in HR management aimed at strengthening workforce capacity in terms of efficiency, effectiveness, accountability, and transparency; maximizing the impact of contributions to programmes and operations.

The current composition of the workforce may be a barrier to the implementation of Pillar 1.

- **Pillar 2. Knowledge management and preservation (B.6.6):** Continuously refining existing tools and mechanisms, and developing new ones, for improved management of the workforce and alignment of policies, knowledge generation, retention, and transmission within UNIDO.

We analysed knowledge management practices and related IT tools at UNIDO, both in HQ and FOs, and noticed that this function requires certain improvements based on global best practices, while IT systems need to be updated in accordance with the needs of users.

- **Pillar 3. Geographical and gender representation:** Improving gender balance and geographical representation in our workforce.

We acknowledge that UNIDO is actively working on gender equality and geographical representation at its HQ and field offices. We encourage the Organization to continue its valuable work in this area.

The HR strategy also establishes HR strategic objectives such as optimized talent acquisition, an engaged and motivated workforce and an inclusive, high-performance corporate culture. In order to achieve the HR strategic objectives, UNIDO will need to work on improving such areas as the assessment of employee competencies, management of staff performance, learning and development, and optimization of recruitment (see Recommendations B.6.2, B.6.4, B.6.5, B.6.7).

The current HR organization system, including current HR processes, the ratio of regular staff and ISA holders appear to be somewhat inconsistent with the pillars and strategic objectives outlined above.

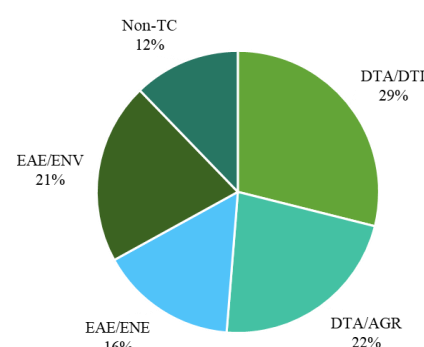
<b>B.6.1. HR</b>
<b>The current composition of the workforce should be polished to ensure the implementation of the HR strategy</b>
<b>High</b>
<b>Recommendation</b>
We recommend analysing the composition of the UNIDO workforce and developing a retention and motivation strategy for regular and temporary staff

UNIDO heavily relies on the technical knowledge and expertise of its employees who are the main holders of institutional knowledge and are the main vehicles for transferring it to new generations. However, the preservation of expertise can be threatened by high employee turnover, when more experienced employees leave the Organization faster than they can transfer knowledge to newcomers and faster than the newcomers can learn to apply that knowledge. Another obstacle to institutional strengthening is the large number of temporary employees.

Currently, more than 70 per cent of UNIDO employees are ISA holders. Almost 60 per cent started a new contract with UNIDO less than four years ago, including 25 per cent who started less than one year ago. On top of that, ISA holders are engaged not only for project implementation purposes where short-term agreements may be relevant, but also work in HQ in administrative and support positions (see figure 18).

Today, it is hard to motivate ISA holders to stay at UNIDO for a long time, since temporary personnel may not have career growth options, do not receive some social security payments. ISA holders typically prolong their short-term agreements without understanding whether they will still be working at UNIDO within several months. This kind of instability may demotivate them and adversely affect their performance, including the failure to properly perform or document their work or hand over their duties to their successors.

**Figure 18. ISA holders by UNIDO Departments**





Therefore, it may be difficult to achieve institutional strengthening when a sizeable portion of the workforce – ISA holders – remain outside of most HR management processes such as performance and competency assessments, training, motivation, retention and knowledge-sharing.

As for regular staff, we note that the average age is 48. Transfer of knowledge to newcomers in subsequent years may become a challenge and require UNIDO to adopt various HR management strategies.

Recommendation:	Status: Open
To be in alignment with the organizational pillars and achieve UNIDO's strategic objectives, we recommend the following:	
<ul style="list-style-type: none"> <li>a. Analyse UNIDO's workforce composition and turnover rates, identify the most valuable skills and knowledge held by regular staff and ISA holders, rank the positions where having employees in the long term is crucial, desirable, or not necessary. Identify key talent among ISA holders.</li> <li>b. Develop a workforce strategy based on the above analysis. The strategy should cover retention, engagement, performance evaluations and trainings (including mandatory trainings on UNIDO policies and guidelines for ISA holders).</li> </ul>	

#### Management response:

The recommendations are noted.

<b>B.6.2. HR</b>	<p>In a survey conducted by the High-Level Committee on Management (HLCM) of the UN system in early 2021, it was found that there is a high risk that workforce planning within UN organizations may be misaligned with their needs. In response, the UNIDO Office of Evaluation and Strategic Oversight (EIO) assessed the adequacy of relevant competencies/skills in key priority areas, the alignment of competencies/skills with the Organization's strategic priorities and current and emerging needs and strategic workforce planning.</p> <p>The EIO together with HRM have recently finished preparing a report on technical competencies and behavioural competencies for particular departments. However, the findings of the report were not cascaded to the division level or to separate positions. We recognize UNIDO's efforts in this area and would like to make recommendations that could enrich the process and make it more practical. Our recommendations are based on best practices for public sector organizations.</p>
<b>Staff competencies should be specified for each position</b>	
<b>High</b>	
<b>Recommendation</b>	

**Step 1. Determine the key groups of competencies.** We reviewed strategic management action plans regarding the UNIDO competencies and noted that UNIDO has divided necessary competencies into two main groups: technical and behavioural. At the same time, we recommend considering, as part of the strategy, digital competencies in view of global digitalization, as well as managerial competencies, since a large portion of staff belongs to project teams where these competencies are needed. Although such competences are embedded in the current strategy, it would be valuable to consider digital and managerial competences specifically.

#### Step 2. Identify competencies that fall into each group:

- Soft competencies (behavioural and managerial) should be equal for all UNIDO divisions and offices set by HRM.
- Hard competencies (technical and digital) may depend on the needs of the division or office and, therefore, should be defined by each division or office individually.

**Step 3. Develop a scoring system for each competency to evaluate proficiency**, for example, to score technical competencies from 0 to 3 or to set up basic, intermediate, and proficient levels. Each score/level for each competency should have a specific measurable criterion/indicator for further assessment of achievement.

Upon compiling a competency map for UNIDO's divisions and offices, it is necessary to complement the job profiles of every employee/position with the target level of competencies. In addition, we encourage UNIDO to analyse and update job profiles taking into account the benchmarks and descriptions of typical duties for specific fields of work developed by the International Civil Service Commission (ICSC).



### Assessment of competencies

After determining the target job profiles, it is necessary to conduct an assessment of the competencies of each employee against the target job profiles. It is important that not only employees conduct a self-assessment, as it is currently planned by UNIDO, but also that their supervisors and peers conduct assessments with respect to each employee. This would provide a more comprehensive and fair picture on each employee and will generate more data for further analysis based on the results of the assessments, including:

- Analysing the gaps between the assessment of each employee and their supervisor and peers, identifying the causes of the differences between their assessments and determining the final proficiency level.
- Comparing the final proficiency level with the target level from the job profile and identifying areas for development.
- Drawing up an action plan to close the gaps.

Recommendation:	Status: Ongoing
<p>We recommend considering the following action plan for identifying and assessing competencies and closing the competencies gaps:</p> <p><b>1. Competency mapping</b></p> <ol style="list-style-type: none"> <li>a. Determine the key groups of competencies.</li> <li>b. Identify the competencies that fall into each group for each UNIDO division/office.</li> <li>c. Develop a scoring system for each competency to evaluate proficiency.</li> <li>d. Complement the job profiles for each employee/position in UNIDO divisions/offices with target level of competencies.</li> <li>e. Analyse and update the job profiles against the ICSC requirements.</li> </ol> <p><b>2. Assessment of competencies</b></p> <ol style="list-style-type: none"> <li>a. Perform a competencies assessment of employees at established positions against the target job profiles, including an employee self-assessment and an assessment by supervisors and peers.</li> <li>b. Draw up an action plan to close the gaps between the actual and target level of competencies.</li> </ol>	

### Management response:

The recommendations are noted.



<b>B.6.3. HR</b>	<p>During the assessment of HR business processes, we identified that the list of established positions with corresponding grades (levels) allocated to specific departments and divisions is not updated with the actual grades of employees who receive Merit promotion. Merit promotion takes place once in a biennium in order to recognize the long and exceptional service of employees. According to the Human Resource Management Framework (HRMF), merit promotion is a personal promotion that does not affect the grade or functional title of the staff member's post.</p> <p>Therefore, the budgetary and classified level of the posts encumbered by such promoted staff members remain unchanged. We recognize that it is an established practice in UNIDO, at the same time it may lead to the risk of differences between the actually required amount of funding from Member States and the budgeted amount.</p>
<b>Merit promotion does not result in the revision of the budgetary and classified level of the posts</b>	
<b>High</b>	
<b>Recommendation</b> We recommend considering a new promotion programme based on the approved programme and budget	
<b>Recommendation:</b>	
We recommend the following: <ol style="list-style-type: none"> <li>Ensure that updated salary data for employees receiving merit promotions is included in the UNIDO budget.</li> <li>Consider developing a new promotion programme that will be based on the approved programme and budget where staff members will be promoted against vacant higher-level posts.</li> </ol>	
<b>Status:</b> Ongoing	

#### Management response:

The recommendations are noted.

<b>B.6.4. HR</b>	<p>We assessed the current Staff Performance Management System from two perspectives: goal setting and performance appraisal.</p> <p><b>1. Goal setting</b></p> <p>At UNIDO, KPIs are set at the beginning of the financial year for every UNIDO Department. The KPIs are then cascaded to UNIDO divisions and employees who set individual goals and expected results (KPI) based on the cascaded goals (with preliminary supervisor approval).</p> <p>We assessed the personal goal setting in terms of their connection with UNIDO's strategy, quantitative or qualitative measurement, as well as the completeness and sufficiency of KPIs, and concluded the following:</p> <ul style="list-style-type: none"> <li>The correlation between KPIs and cascaded goals is not straightforward, as there is no link of individual KPIs to specific outputs.</li> <li>The measurement of KPIs may be a challenge. For example, for the KPI "effective supervision of the ethics functions in the Organization", the effectiveness of supervision is measured. Another example is the KPI "participation in various events". It is not clear how many events one should participate in to achieve the target.</li> <li>KPIs do not take personal learning and development plans into account, as well as trainings to be completed, although they are crucial for UNIDO.</li> </ul>
<b>The Staff Performance Management System requires improvement</b>	
<b>Medium</b>	
<b>Recommendation</b> We recommend improving the assessment and KPI setting process. In addition, we encourage considering new performance appraisal systems and types of effective feedback	

#### 2. Performance appraisal

UNIDO uses a one-year performance cycle that includes goal setting at the beginning of the year, a midterm review in the middle and a final performance appraisal at the year-end. The performance appraisal includes the assessment of KPIs and proficiency in the core values and competencies, which is rated from 1 (lowest) to 5 (highest). The appraisal is conducted by the employees, their supervisors and peers.

We identified several areas of potential weakness in the performance appraisal:

- Progress against set KPIs is not tracked over the year, although some amendments to KPIs may be introduced during the midterm review.

**A. Financial audit****B. Performance audit**

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- Core competencies and values include non-technical competencies, while the professional evaluation of technical competencies is not performed regularly. This could provide significant insights about existing and required skills and support the development and recruitment strategy accordingly, taking into account the overall UNIDO strategy.

We encourage UNIDO to consider improving its performance appraisal system based on global best practices that include management by objectives (MBO), psychological appraisals, behaviourally anchored rating scale (BARS) and others. UNIDO should select the most suitable appraisal methods for the Organization. UNIDO could also benefit from more frequent but less in-depth reviews, for example, snapshots on a quarterly basis. In addition, we recommend considering rapid or ad hoc feedback when a supervisor, peer or counterparty provides an assessment of employee performance based on the completion of a specific task or project and not on the year-long performance of a particular function.

**Recommendation:**

Status: Open

We recommend considering the following improvements to Staff Performance Management:

**1. Goal setting:**

- Develop guidance on KPIs setting, which should include the following aspects:

- Instructions on how to formulate goals correctly, for example: (a) state goals in verbal form or as specific actions, (b) formulate goals according to the SMART or PACT concept (or other suitable concept), (c) link personal goals with department goals and other requirements.
- Requirement on setting the criteria for measuring the achievement of each goal.
- Requirement on indicating the key activities that should be done to achieve certain KPIs.

- Include the timely and consistent completion of mandatory trainings in every employee's personal KPIs.

**2. Performance appraisal:**

- Conduct professional skills assessments of employees periodically (e.g. annually, or once every two years).
- Consider introducing rapid or ad hoc feedback when a supervisor, peer or counterpart provides an assessment of an employee's performance based on completion of specific task or project.
- Perform the review of KPI progress achievement on a more frequent basis (e.g. every quarter).

**Management response:**

The recommendations are noted and will be considered when UNIDO initiates the work on developing a new staff performance management system and the related tools in 2023, subject to the management priorities and availability of resources.

**B.6.5. HR**

The learning and development function requires improvement

**Medium****Recommendation**

We recommend improving the learning function by creating learning and development plans, a unified training schedule and a single learning management system

UNIDO staff typically possess deep knowledge of a specific domain. In the modern age where new technologies and practices appear every day, it is crucial for UNIDO to provide learning and development support to employees.

The learning function at UNIDO currently includes gathering learning needs, organizing external or internal trainings, tracking training performance, implementing learning management digital tools and other related tasks. While the learning team is doing their best with the limited resources they have, it is important to note the main areas in their activities where improvement is highly recommended.

**1. Gathering learning needs**

At the beginning of each year, all UNIDO departments fill in a template with their learning needs. As part of our analysis of the completeness and accuracy of the templates, we noticed that there is typically no clear rationale behind the requests for training, and learning needs are not based on the competency development plans for employees. Therefore, it is not clear how the trainings will contribute to the achievement of the Organization's strategic goals.

Sometimes, UNIDO departments indicate desired training providers, the expected budget and MDs commentaries regarding the prioritization of trainings. In most cases, there is no such information, and the learning team does not have an understanding of the learning budget, assumptions or plans.



## 2. Training performance

- **Training selection and approval is not documented.** After the collection of information about learning needs, HRM makes research for trainings and presents options to the department's learning focal points, who are then expected to select and approve appropriate trainings. However, this process is not documented.
- **Lack of a unified training schedule.** There is no single consolidated training schedule available to all employees, or to HRM. This may result in missed training-related deadlines and non-fulfilment of training plans. A unified schedule with customized dashboards would make it possible for all parties to track their learning activities and completion of trainings. A dashboard would also make it possible to track the completion of mandatory courses (currently, the tracking process is not clear, and the HRM highlighted frequent cases where employees have missed deadlines for mandatory trainings).
- **Lack of unified learning management system.** In general, having a single repository for all training-related information (training materials, registration lists, online and offline training catalogue, monitoring dashboards) is a global best practice. Using such a system makes the learning processes more efficient and creates a much-needed knowledge database. Learning management systems may include such functions as:
  - Single repository of learning materials.
  - Repository of training registrations, post-training assessment results and completion certificates.
  - Repository of post-training feedback forms on the organization of trainings, materials, facilitators, etc., with functionality to analyse this information and use the results in the future.
  - Training completion dashboards and tracking of individual learning plans.

Recommendation:	Status: Open
<p>We recommend implementing the following actions to improve the learning process:</p> <ol style="list-style-type: none"> <li>a. Prepare learning and development plans for employees based on their competency assessment and HR strategy. The plans need to include the rationale for any trainings and other development actions linked to specific goals of the department and ultimately of the Organization.</li> <li>b. Prepare a learning budget based on the learning and development plans of the department and the employee and have a clear rationale.</li> <li>c. Develop an annual consolidated training plan and track its execution.</li> <li>d. Implement a single learning management system.</li> </ol>	

### Management response:

The recommendations are noted. Earlier attempts at implementing activities similar to the above recommendations were challenging due to the overall lack of learning resources and therefore, learning/training may not always be an overall priority when allocating limited budgetary resources.

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## B. Performance audit

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## B.6.6. HR

The knowledge management system requires improvement

 **Medium**

### Recommendation

We recommend improving the knowledge management process by organizing knowledge-sharing sessions, developing instructions on the project hand-over process and updating KMC based on the user survey

Taking advantage of the knowledge within an organization is a great way to maximize its potential. As UNIDO relies greatly on the expertise of its employees in fulfilling its mandate, knowledge management is an important process that needs to be properly structured and performed. UNIDO has accumulated extensive technical expertise and knowledge in developing and implementing projects related to industrial development around the world in varying economic, environmental, social, and other circumstances. Important expertise and knowledge held by UNIDO in great volumes needs to be properly stored, tagged, archived, and managed.

The main components of the knowledge management system could be assessed as people, process, and technology.

### People

At UNIDO, people are the main carriers and creators of knowledge and expertise. However, putting all of that knowledge and expertise into paper form and passing it along to colleagues via documents and notes is not the most efficient way to transfer knowledge. Therefore, personal communication, presentation, discussion and training between teams are invaluable for sharing experience and should be encouraged within each department. We highly encourage UNIDO to continue organizing personal or online presentations,

meetings, workshops in order to boost knowledge-sharing. We recognize UNIDO's efforts in this respect and encourage further strengthening in this area.

### Process

We observed that UNIDO does not have well-established internal control over the completeness and quality of archived project-related documents. No knowledge champions who could drive this process have been appointed. Both of these factors make the document archiving and storage system inefficient.

In addition, UNIDO does not have any policy or guidelines for handing projects over if a project manager or other key project team member changes. Most UNIDO projects last for three to five years. Project managers are occasionally changed in the course of a project, but proper project hand-over depends entirely on the initiative of the previous PM. The new PM is often provided with a pile of documents in no particular order. The lack of a unified structure and procedure for storing documents makes this process complicated and time-consuming.

The problem of knowledge preservation is relevant not only for TC Departments, but also for the CMO Directorate. The latter may also suffer from situations where a single staff member is responsible for a certain task or accumulates certain data and no one else knows how to do it or has access to the necessary documents. Development of detailed business process charts could also be useful in this respect.

### Technology

Currently, UNIDO uses a SAP-based knowledge management and collaboration (KMC) system where project managers are obliged to store the main project-related documents. In order to evaluate its efficiency, we communicated with project managers and concluded that many of them believe that the KMC system is not user-friendly (complicated folder structure and limited search functionality). The technical and functional limitations of the KMC system force project managers to search for other IT solutions, such as internal drives or cloud-based storage management systems. This differentiated approach to data storage and knowledge transfer may lead to information security issues, storage of incomplete documents, and difficulties in locating necessary information, especially when team members are rotated.

A single storage system would be beneficial not only for project documents but for project-related document templates as well. We observed that all templates are stored on the Intranet, although they are scattered on different pages and links that sometimes create difficulties in finding the correct or up-to-date template.



Recommendation:	Status: Open
<p>We recommend conducting the following steps to improve knowledge management at UNIDO:</p> <p><b>1. People</b></p> <ul style="list-style-type: none"> <li>a. Continue and expand practice of in-person or online regular knowledge-sharing sessions, continue promoting knowledge-sharing culture and the Knowledge Hub.</li> <li>b. Set up a catalogue of lessons learned that will be discussed and updated following the knowledge-sharing sessions.</li> </ul> <p><b>2. Process</b></p> <ul style="list-style-type: none"> <li>a. Appoint knowledge champions responsible for developing a knowledge management strategy, improving the knowledge management module, organizing knowledge-sharing sessions, and overseeing that the necessary documents are uploaded.</li> <li>b. Create a policy or guideline describing in detail the project hand-over process.</li> <li>c. Develop detailed business process charts.</li> </ul> <p><b>3. Technology</b></p> <ul style="list-style-type: none"> <li>a. Conduct a user satisfaction survey among PMs and other users of the KMC system to gather suggestions on the required and desired technical and functional aspects of the system (folder structure, search functionality, etc.).</li> <li>b. Based on the survey results, improve the functionality of the existing KMC module and create a more user-friendly and intuitive folder structure.</li> <li>c. Organize the storage of templates in one place or incorporate necessary up-to-date templates in SAP/other relevant systems.</li> </ul>	

**Management response:**

PARTIALLY AGREE: The description of the process in “(1) People” does not seem to fully reflect the current situation, particularly in technical Directorates, where regular webinars and knowledge-sharing sessions are organized, in different formats, but in continuity. In addition, there are channels and spaces for promoting actions, events, technical tools, publications, etc. A Knowledge Hub exists where publications, brochures, guidelines, presentations, online technical training courses, news, workshops recordings, etc., are well stored and promoted. Further to this, on “(2) Process”, UNIDO does have a template for the knowledge transfer files that includes descriptions of each step and responsibilities, although it may need to be updated. On “(3) Technology”, it is clear that the OpenText could be improved in terms of functionalities and user-friendliness, particularly since this is where most of the information related to TC and other functions are stored.

## A. Financial audit

## B. Performance audit

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## B.6.7. HR

## The recruitment process requires improvement

 **Medium**

## Recommendation

We recommend reconsidering the steps and roles within the recruitment process, documenting the justification for the final candidate selection, and strengthening the competitive process for ISA holders

According to the benchmark analysis, the recruitment process at UNIDO is less efficient than that at similar organizations and companies on the market. The average number of days required to fill a vacancy at UNIDO is around four times higher than the market median. At the same time, the average number of open vacancies per recruiter is about two times lower (see figures 19–20).

This suggests that some steps in the process are excessive and can be cut out or automated. Therefore, a detailed analysis is required in order to identify the steps that can be optimized.

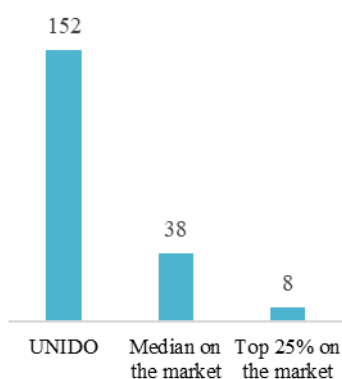


Figure 19. Average time for open vacancy closing (for the six month)

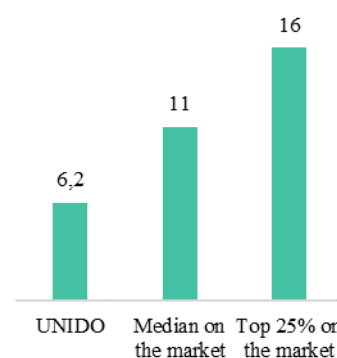


Figure 20. Average number of open vacancies monthly per recruiter

## Recruitment of regular staff

*APB requires attention in order to assess its functional role*

The recruitment of regular staff entails the involvement of the Appointment and Promotion Board (APB), which reviews all documents related to recruitment and confirms that the recruitment process followed the relevant policies. APB does not conduct interviews with candidates and does not provide an opinion on the best candidate. In fact, only the recruitment panel, which includes the hiring manager, is involved in interviewing and assessing candidates. Assuming that the APB role is narrowed to simply confirming compliance with the policies, which can be done by the HRM, it is suggested either to reconsider their authority and give them more power or consider transferring the compliance function to the HRM controller.

*Lack of written justifications for the selection of final candidates*

For the selection of final candidates, the DG receives a list of candidates with all the recruitment documents, including resumes and assessment reports, and makes the final decision. The DG does not meet the candidates on the short list or receive any comments from the APB or hiring manager regarding the preferred candidate. Given that there is no obligation for the DG to select the candidate with the highest score, the DG selects final candidates based on professional judgment (and this is not documented). Therefore, there is no written justification of why final candidates are selected.



**Recruitment of ISA holders**

*Formal limited competition for ISA holders*


In order to implement the recommendation of the previous External Auditors regarding holding a limited competition for ISA holders, project managers currently make a preliminary search for potential candidates in the internal CV database and identify three preferred candidates in a requisition form for ISA recruitment. In theory, preferred ISA holders further have to be assessed (according to the specially developed assessment matrix) based on their education, experience, and hard and soft skills. However, in practice, this assessment often is not conducted. Instead, the procedure entails screening the CV for the minimal competencies and experience required for the position. This process is formal and often does not include an interview with the candidate. Recruitment teams do not provide an opinion on the results of the CV screening. The final decision is made by the hiring PM who, as a rule, identifies one preferred candidate even before making a requisition form and indicates additional candidates only to formally meet the limited competition requirements.

In this regard, it is proposed to introduce a mandatory requirement to conduct and document interviews with three selected candidates in the same order as for regular staff.

Recommendation:	Status: Open
We recommend considering the following steps to improve the recruitment process:	
a. Reassess all steps of the recruitment process and identify and eliminate formal/inefficient steps.	
b. Reconsider the APB role in the recruitment process, e.g. give them more authority, e.g. select the preferred candidate or conduct additional interviews with the candidate preferred by the hiring manager, or transfer its compliance function to the HRM controller.	
c. Document the justification for the selection of the final candidate.	
d. Apply a competitive process for ISA holders (candidates should be interviewed and assessed properly).	

**Management response:**

The recommendations are noted. HRM is currently transitioning to a new e-recruitment platform and revising its talent acquisition (recruitment) policy, with the aim of increasing efficiency and transparency in the overall recruitment process, as well as to align with current best practices within the UN common system.

<b>B.6.8. HR</b>
<b>The workload of PMs is not assessed systematically</b>
 <b>Low</b>
<b>Recommendation</b>
We recommend implementing a resource-managing tool to level out the workload and assign tasks to people with the necessary skills

In pursuing its goals, UNIDO engages in a variety of activities, including technical cooperation projects, conferences, training and research. All of these activities are constrained by limited resources, both human and financial. As a result, UNIDO employees, regular staff and ISA holders are stretched thin and must constantly deal with work overloads, often without additional compensation.

One of the main driving forces at UNIDO are project managers – they are responsible for the development, implementation and evaluation of the technical cooperation projects. We analysed their workload and identified that, on average, project managers have more than five projects per calendar year with an average portfolio of €1.5 million (see figure 21). However, in a number of extreme cases, project managers have 15–20 or more projects in a calendar year. One project manager had as many as 37 projects in FY 2021, and we identified a case in which a single project manager had as many as 47 projects simultaneously. Half of all projects are led by the Directorate of Environment and Energy, which includes the Montreal Protocol Division (see figure 22). This division, according to our analysis, has the highest number of projects per PM.

At the same time, there are divisions where project managers may be working on only one to five projects per year.



Figure 21. Number of projects per one PM

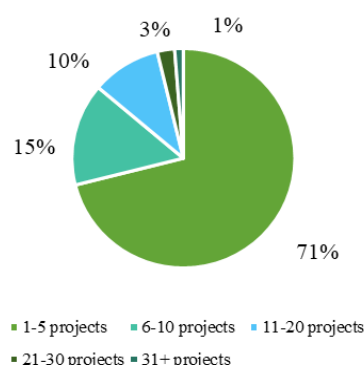
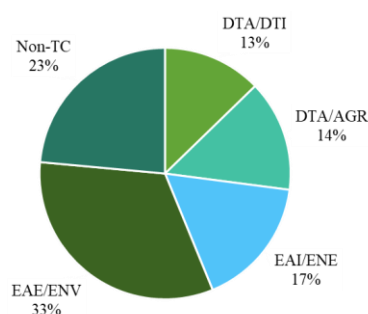


Figure 22. Number of projects by departments



We understand that the number of projects (as well as budgeting) does not always characterize the actual workload of employees. At the same time, it may indirectly indicate an uneven workload or differences in project management practices applied in different departments. For example, some donors or funds require more complicated and time-consuming reporting. Other projects require more coordination between different teams, suppliers, stakeholders, etc.

**Recommendation:**

Status: Open

We recommend that Management do the following:

- Develop and implement a resource-managing tool indicating the current projects and key tasks of project employees, as well as their duration, e.g. based on timesheets. This would make it possible to see the actual workload of employees and reallocate tasks accordingly.
- Identify employees' skills, competencies and special knowledge and assign complicated/specialized tasks and projects to those who have the necessary skills and who can complete the tasks more efficiently.
- Perform an in-depth analysis of the workload of PMs in different departments to obtain an understanding of why employees from one department put more time and effort into one project than employees from another department, and take appropriate action. The use of timesheets would be helpful in this respect (see Recommendation B.4.2).

**Management response:**

**PARTIALLY AGREE:** Due to the differing complexity of projects, the number in a Manager's portfolio may not say much about the workload. UNIDO is well aware of this and is considering possible approaches for effective use of timesheets in developing a resource managing tool. Further, with limited resources, systems and tools, it may be challenging to fully implement the recommendation.

**A. Financial audit**

**B. Performance audit**

**C. IT and Innovations**

**C. Information technology (IT) and Innovations**

**Key recommendations:**

Recommendations	Level of risk
<b>C.1. Information technology general controls (ITGC)</b>	
<b>C.1.1. ITGC.</b> Segregation of duties within IT-function	<b>Critical</b>
<b>C.1.2. ITGC.</b> SAP privileged account management	<b>Critical</b>
<b>C.1.3. ITGC.</b> Privileged access rights within change management process	<b>Critical</b>

**C.1. Information technology general controls (ITGC)**

**Background**

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 and SAP SRM.

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

<b>IT governance</b>	IT leadership, IT organizational structure and processes that ensure the enterprise's IT sustains and extends the organization's strategies and objectives.
<b>Program changes</b>	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.
<b>Access to program and data</b>	The process of managing user access, including access granting/revision and removal, as well as privileged access and password protection.
<b>Computer operations</b>	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.

Given that IT general controls were assessed in the previous year, the Accounts Chamber's independent testing was mostly focused on high-risk IT general controls and on the evaluation of the status of the previous year's findings.

Moreover, it should be noted that in the course of the previous year's assessment and evaluation of IT general controls, the Accounts Chamber partially used the results of work performed by the Internal Auditor in order to avoid the duplication of efforts.

Overall, our approach included the following:

**Review of control documentation** (including policies, standards, operating instructions, etc.): ensured that management had identified and documented key controls for the in-scope processes of IT governance, access to programs and data, program changes and computer operations.

**Design assessment:** conducted meetings and, where appropriate, performed walkthroughs of the processes to confirm our understanding of processes and assess the design of key controls.

**Evaluation of operating effectiveness of controls:** performed independent testing for a selection of key high-risk controls (including direct validation of in-scope system settings).

As a result of our evaluation and validation of IT general controls, and considering the conclusion reached in FY2020, our overall opinion is that the internal controls over IT require improvement.

Nevertheless, we see that management has taken considerable efforts to improve the internal control environment and comply with best practices. Management's approach to remediation has been to focus first on more risky areas, including paying close attention to the development of effective control design and the implementation of monitoring procedures.

## A. Financial audit

## B. Performance audit


## C. IT and Innovations

We would like to admit UNIDO's Management actions taken towards progress in remediation of control deficiencies identified in FY 2020. The remediation of control deficiencies, requires dedication of specific resources, therefore it is important to track the progress, rather than identify the issue. To stay focused on the progress, we presented the status of issues in the following way:

**Not remediated.** Issue identified, Management is advised to consider steps forward.

**Partially remediated.** Management dealt with the issue. Despite the progress, the conclusion remains unchanged.

**Remediated.** Work performed addressed the deficiency of identified controls or introduced compensation controls.

<b>C.1.1. ITGC</b>	We noted that the following critical functions are not properly segregated at the organizational and operational level:
<b>Segregation of duties within IT-function</b>  Critical functions are not properly segregated at both organizational and operational level	<ul style="list-style-type: none"> <li>• Development and implementation functions.</li> <li>• Development and system maintenance functions.</li> </ul> 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.
 <b>Critical</b>	
<b>Recommendation</b>  We recommend reconsidering SAP privileged account management	In FY 2021 we noted that the following standard operating procedures (SOP) have been significantly updated by management: <ul style="list-style-type: none"> <li>• SOP SAP Authorization Concept (the document defines the purpose of the administration, development and consultant roles in the SAP systems).</li> <li>• SOP IT Change Management Procedure (the document defines the program change and release management concept in relation to the SAP systems).</li> </ul>

However, we note that the segregation of duties controls remain ineffective. We would like to give credit to the Management actions towards enhancing the control environment overall. At the same time, we note, that the segregation of duties plays an important role in the internal control system. Even minor retreats from full compliance with ISO/IEC 27001, may discredit the quality of data in the system and impair the strength of the internal controls of the organization. We would encourage UNIDO to continue best efforts in order to remediate segregation of duties deficiency.

### Risk

Lack of segregation of duties 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 processing and lead to losses of data integrity.

<b>Recommendation:</b>	<b>Status:</b> <b>Partially remediated</b>
We recommend that Management: <ol style="list-style-type: none"> <li>Segregate functional responsibilities of IT staff, assign separate staff with responsibility for development, implementation and BASIS activities <b>OR</b></li> <li>If it is not feasible to clearly segregate ITS functions and most IT personnel are interchangeable, then enforce segregation of duties controls at the operational level (e.g. assign different team members with responsibility for key steps within the change management process) <b>AND</b></li> <li>Implement regular monitoring controls aimed at ensuring that no unauthorized and/or fraudulent activities took place for those IT procedures where segregation of duties requirements are not followed.</li> </ol>	

### Management response:

UNIDO takes note of the recommendations. Presently, development is already segregated from implementation (Transport) and BASIS activities. Senior management is considering a proposal for further segregation. The implementation of "c" could be combined with the ISMS, as it would be work within an oversight function.

**A. Financial audit**

**B. Performance audit**

**C. IT and Innovations**

**C.1.2. ITGC**

**SAP privileged account management**

Critical permissions are not properly restricted



**Recommendation**

We recommend that management reconsider the current SAP authorization concept

During our review of privileged access rights that were not properly restricted. In FY 2021 we observed that the following procedures were defined and formalized by Management:

- Accounts with administrative privileges usage concept.
- SAP Service accounts concept.
- Emergency user concept.
- Monitoring procedure over emergency and support user accounts usage.

In our review of privileged access, we noted the following:

**Privileged access**

Following our last review in FY 2020, we observe that Management has reduced the number of accounts with privileged access assigned. Nevertheless, we identified 15 active accounts with privileged rights. In addition, the emergency user concept (usage of DDIC user account) was defined and formalized by Management.

Access to the standard emergency account is not blocked (DDIC user account, S Service user type). This could make it possible for anonymous users to use such

account for single or multiple logons. However, as we mentioned above, the emergency user concept (usage of DDIC user account) was defined and formalized by management. Moreover, the biannual monitoring procedure to analyse the usage of the DDIC user account was implemented at the end of FY 2020.

Access to S Service user accounts is not properly restricted. Following our review in FY 2020, we see that Management has decreased the number of such accounts (from 33 to 26). However, the number of “S Service type” accounts is not limited, and most are not personified.

We noted that Management defined and formalized the procedure for the use of SAP Service accounts (SOP SAP Authorization Concept). In accordance with the new procedure:

- Interactive logon is prohibited for service accounts.
- Passwords of service accounts are stored in UNIDO’s special application.
- Every service account has to be linked to a business or technical owner.
- Biannually, SAP Basis Team runs a report that lists the active service accounts and checks the validity of their owners.

We noted three non-personified accounts at the SAP ERP and SAP SRM database level (SUPERDBA account in ERP and SRM, SAPPPE1 account in ERP and SAPPMP1 account in SRM). All these accounts are granted with administrative (privileged) authority.

**Risk**

The current approach to privileged account management creates a significant threat to system integrity and data consistency. That, in turn, may result in committing unauthorized/erroneous actions through the implementation of critical access rights and the concealment of inappropriate actions at the application and/or database level.

**Recommendation:**

**Status: Partially remediated**

We recommend considering the following general practices to enhance SAP privileged account management:

- Establishment a formal procedure for monitoring all kinds of privileged access.
- Granting privileged access for a limited time based on authorized requests and strict monitoring of all privileged access actions.
- Limit non-personified privileged accounts by technical users only without the possibility to logon.
- Regular inventory of privileged accounts to be conducted.


**Management response:**

UNIDO takes note of the recommendations. The work to address these recommendations is ongoing and is an effort of continuous improvement. In addition, a proposal is under consideration by senior management for a more effective approach to addressing these recommendations.

## A. Financial audit

## B. Performance audit

## C. IT and Innovations

<b>C.1.3. ITGC</b>	<p>In the course of evaluating the change management process, we noted that access rights to critical privileged permissions were reviewed by management. As a result, the number of users with access to the following privileged permissions was decreased:</p> <ul style="list-style-type: none"> <li>• Process direct changes to SAP tables.</li> <li>• Maintain the SAP production client (open/close production client, change the client settings).</li> <li>• Transfer program changes to the SAP production environment.</li> <li>• Debugging the program code.</li> </ul> <p>However, we see that the accounts with privileged permissions all belong to either business or third-party users. We noted that the IT Change Management standard operating procedure was significantly updated by management in relation to system opening (the system owner should be involved in the system opening process).</p>
<b>Privileged access rights within the change management process</b>	
 <b>Critical</b>	
<b>Recommendation</b>  We recommend reconsidering SAP privileged account management within the change management process	

Apart from that, we noted that the number of direct changes to SAP ERP tables is still excessive (784 items between January 2021 and October 2021 compared to 1,223 items in FY 2020).

During an interview with the ITS team, we also confirmed that no formal detective control has been established to ensure that direct table changes are processed in line with the approved request. Informal verification may be performed by change initiators, but the results of such reviews are not documented. Detective controls aim to identify breach the controls subsequently, after the transaction occurs. Such controls help management to identify issues occurring in the system on time to prevent the risk of material misstatement in financial statements.

**Risk**

Unauthorized modification of system functionality and critical system data, breach of system integrity, data consistency and concealment of inappropriate actions.

<b>Recommendation:</b>	<b>Status: Not remediated</b>
<p>We recommend considering the following measures:</p> <ol style="list-style-type: none"> <li>Implement monitoring procedures over the validity and relevance of privileged permissions:               <ul style="list-style-type: none"> <li>• Usage of privileged access and sensitive generic IDs.</li> <li>• SAP production client opening.</li> <li>• Validity of changes transferred to the SAP production client and/or changes performed directly in the SAP production client.</li> <li>• Validity of access rights (including segregation of duties analysis) to key applications and databases.</li> </ul> </li> <li>Implement monitoring procedures over the validity and accuracy of direct changes processed.</li> <li>Direct changes to SAP ERP tables may be performed in an emergency, such cases should be based on authorized requests by responsible staff (process owner and/or system owner).</li> <li>Consider the implementation of monitoring controls. When designing the monitoring controls, the following factors should be taken into account:               <ul style="list-style-type: none"> <li>• Staff responsible for the monitoring (here, the independence of the control performer should be considered).</li> <li>• Frequency of monitoring.</li> <li>• Documentation of the monitoring results.</li> <li>• Follow up activities for issues identified.</li> </ul> </li> </ol>	

**Management response:**

UNIDO takes note of the recommendation. Efforts to reduce the need for privileged access, are an ongoing effort and there are still opportunities for further reduction. UNIDO understands monitoring controls and oversight (second level) function, possibly placed within the ISMS.

**A. Financial audit**

**B. Performance audit**

**C. IT and Innovations**

**C.2. Innovations**

**Background**

During the FY 2021 audit we performed a detailed assessment of innovations in UNIDO. We distinguished between innovations that UNIDO offered as part of project delivery and UNIDO's enhancement through innovation. On the one hand UNIDO piloting ambitious and progressive technologies like the Internet of things in Kenya. Such engagements require the highest level of technical competence and up-to-date knowledge. On the other hand, UNIDO is a quite mature organization that may experience the necessity to update some operational activities.

UNIDO has vast experience in nurturing innovation both internally and in cooperation with its partners. UNIDO has a track record of successful innovative projects that help it reinvent business processes, strive for operational excellence and deliver modern-era solutions to field projects. Most innovations derive from the personal initiative of UNIDO's employees and are concentrated within several units: Department of digitalization, technology and innovation (DTI), and Department of Finance, Information Technology Services Division (ITS) to name a few.

**Methodology and approach**

As part of our analysis, we performed the following procedures:

- Studied and acknowledged recent technological developments at UNIDO's business operations and field projects.
- Examined business processes to identify areas that have the most potential for adopting new IT tools and innovations.
- Interviewed key personnel involved in developing innovations (e.g. the Department of digitalization, technology and innovation).
- Explored best practices within the UN system.

We structure our observations as follows:

- Current UNIDO practice;
- Areas for further development.

UNIDO has a number of innovations that help it modernize its back-office functions. These solutions are aimed at replacing obsolete, labour-intensive processes with automated solutions. Most notable efforts are recognized within the Department of Finance, which has created the Finance Innovation Team (FIT) responsible for delivering initiatives. FIT has several projects with robotic process automation (RPA) technology, including the following below.

**C.2.1. Current UNIDO practice**

**Cash receipts.**

- UNIDO implemented robotic process automation (RPA) within several operations in finance, e.g. a bot that, in case of cash receipts, reconciles incoming items (just for Headquarters and global banks), and if it reveals unreconciled items, it sends an email to the bank. It also investigates unreconciled items and the SAP on the whole and tries to identify how these items could be reconciled. Some bots are also used and tested for donor reporting processes.
- It also investigates unreconciled items within the SAP and tries to identify how these items could be reconciled (searches for other appropriate characteristics: country name, other codes).
- In the cash disbursements process, after uploading the bank statement into SAP, the bot reconciles all payments made and indicates which ones can't be reconciled automatically.

**Donor reporting**

- Dashboards for donors: the Department of finance has developed several dashboards that visualize UNIDO's spending in real time and help users to easily follow data.
- Automatic creation of donor reports via bots. The current project allows for the automatic creation of grant delivery reports and statements of account. Digital copies of reports will replace those on paper and will be shared with a hyperlink.
- Donor reporting based on blockchain technology (in progress). The Department of finance is in the early stages of a donor reporting project based on blockchain. If implemented, it will allow donors to track spending in real time which will drive the transparency of spending even further.

## A. Financial audit

## B. Performance audit

## C. IT and Innovations

## C.2.2. Further development

We consider that the following examples of good business practice may also benefit the Organization overall and fit the continuous innovation spirit of UNIDO.

**Manual calculations within business processes**

Manual calculations could lead to human error, loss of data and require significant input of management to maintain a high level of internal control, therefore, it will be beneficial to automate such operations. Below we provide several examples for consideration.

**Field offices**

For imprest and UNDP accounts the process of reconciliation is manual. UNIDO officials manually compare data in the payment list (an excel file) and the bank statement and after that upload the payment list into the SAP. The process is manual because the payments are done by UNIDO field offices and there is no technological connection between UNIDO and its field offices.

The process is routine with defined steps to follow, therefore it may be considered for automatization.

**FOREX**

Currently, the calculation of the exchange rate difference for some accounts is carried out manually. At the same time, the types of accounts that require revaluation could be determined at the system level. Organizing such analytics that are required to calculate FOREX automatically would serve to avoid manual calculations. In addition, the exchange rates from the treasury website could be automatically uploaded to the SAP.

The foreign exchange gains/losses process is a routine that is automated in the best business practice.

**Payroll. Manual update of annual leave.** UNIDO staff are allowed to carry forward to the next year up to 60 unused vacation days. Administrative assistants from each UNIDO department are responsible for conducting and controlling the process of carrying forward vacation days and that is performed manually. At the end of the year, administrative assistants review the annual leave balances of the UNIDO staff in their department and carry forward unused vacation days within the established limit of 60 days to the next year, writing off unused days above 60. The procedure is performed manually in SAP, in addition, administrative assistants manually update leave balance information on the Intranet Infobase for each employee. We noticed that sometimes employees have a leave balance of more than 60 days, which indicates inefficiencies in the manual process and that mistakes or incorrect data are being recorded.

We recommend eliminating manual efforts in carrying forward and writing -off of the leave balances in SAP and automating the updating of annual leave balances on the Intranet using one of the below options:

- Option 1: Integrate SAP HCM and Intranet to ensure automatic update of leave balances on Intranet based on the data recorded in SAP.
- Option 2: Export data regarding leave balances from SAP HCM to Intranet using RPA technology.

**Payroll. Overtime approval.** Currently, requests for overtime approval and payment are prepared manually. An employee should download the request form for overtime pay from Infobase, fill it in with the required information and give it to the project manager/supervisor who approves the request form by signing it. Then the administrative assistant sends the completed and approved request form to the Department of Finance for payroll calculation and further payment processing.

We recommend eliminating manual efforts in this process by developing and implementing automated workflow for overtime request processing in the ITSM system (TOPdesk) including the following system functionality:

- Generate overtime notifications for employees and receive his/her consent for overtime hours work in the system (including sign-off if necessary).
- Generate overtime payment requests and create automated approval flows with an appropriate level of management in line with UNIDO policies and procedures.
- Export data on planned and approved overtime payments to SAP HCM for further payroll calculation and payment processing (direct interface or via RPA).

**Paperwork within payments.** Cash receipts. When UNIDO receives assessed contributions, it prepares, signs and sends a cash receipt voucher (CRV) and a letter to the appropriate Member State both by post and by email. This process could be simplified: the letter could be signed by a digital signature and sent by email or automatically by means of a bot.

## A. Financial audit

## B. Performance audit

## C. IT and Innovations

**Procurement.** Project managers prepare a waiver competition paper (justification for refusal of bidding procedures) and sign it on paper. Afterwards they scan it and upload it to the SAP SRM. The process could be improved if the waiver competition paper could be prepared and approved in SAP SRM automatically. Project managers send the Purchase request to the Procurement team leader by mail (medium value procurement). The process could be improved if the Purchase requests were formed in the SRM system – with the possibility of automatic data transfer from Purchase request to Shopping cart.

**Fraud controls.** A number of organizations, notably WFP, ITU, UNESCO and IAEA use specialized software tools, such as IDEA, agile and ACL, to interrogate existing data for suspicious activity, red flags, duplicate payments etc. that may indicate potential fraud. Implementation of such systems could improve UNIDO's fraud resistance. UNIDO could use specialized software for strengthening its fraud controls.

### Implementation of tools to analyse planned utilization and availability of experts

In addition, we identified that UNIDO does not analyse staff utilization and availability of experts. The lack of these data may lead to uneven workloads for employees and does not enable the analysis of potential room for increasing the efficiency of employees.

According to the world best practices we recommend introducing utilization/workload management processes based on the standard functionality of SAP SuccessFactors and mandatory timesheets completion in SAP HCM CATS. Integration between SAP SuccessFactors and SAP HCM may be conducted directly between these two modules or via export data with the help of RPA technology.

*For project managers and ISA holders (TC departments)*

To evaluate the utilization of project managers and their teams, we propose implementing the following processes in SAP SuccessFactors:

- Allocation and staffing for projects, internal initiatives;
- Processing of requests for required staff/skills;
- Monitoring of staff workload, including monitoring of availability and overtime (please refer for more details to recommendation B.4.5);
- Plan vs. fact monitoring with the breakdown to the project/staff member.

*For non-TC departments*

To ensure and track utilization of employees in non-TC departments we recommend developing specific measurable productivity KPIs depending on their function (for example, "Number of documents processed by one employee per period", "Number of closed vacancies per period", "Average processing time for one document/one vacancy", etc.).

Tracking of KPI achievement may be conducted by the following tools:

- SAP, where documents processed by a specific SAP user may be identified, their number per period calculated and the results exported from the system for further analysis;
- Time tracking and employee productivity monitoring software, which automatically tracks the time of tasks performed on the computer and identifies the ratio of time spent on different applications – Outlook, SAP, etc.;
- Detailed timesheets.

### AI implementation for internal operations

UNIDO could continue usage of the AI-powered technology in the following areas:

- Quality assurance, e.g. an AI-driven quality assurance tool that can scan the draft year-end reports and assess the degree of adherence to reporting guidelines (real life cases could be assessed with UNICEF practice).
- AI-powered chatbots, e.g. chatbots respond to internal and/or external users' requests. Bots can cover standard requests and reduce the workload of UNIDO employees (use case – Safer Chatbots at UNICEF).

The implementation of AI technology and other innovations listed above could benefit the organization by decreasing the routine tasks performed by human beings. At the same time, it's important to note that the role of staff is changing. Nowadays professionals tend to be involved in more analytical and control functions, therefore the implementation of innovations increases productivity, the quality of work, but requires strengthening internal controls and significant investment into human capital development and knowledge management.

**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 60 recommendations, 24 (40 per cent) have been closed, 26 (43 per cent) are ongoing and 10 (17 per cent) have not yet been implemented. We divided the recommendations with "critical", "high", "medium" and "low" priority in order to focus on the most meaningful recommendations (please refer to tables 2–4).

*Table 2. Status of open recommendations*

Type of recommendation	Number	Per cent
Implemented	24	40
Ongoing	26	43
Not-implemented	10	17
<b>Total</b>	<b>60</b>	<b>100</b>

*Table 3. Priority of open recommendations*

Priority	Implemented	Ongoing	Not-implemented
Critical	0	3	0
High	5	5	3
Medium	13	15	5
Low	6	3	2
<b>Total</b>	<b>24</b>	<b>26</b>	<b>10</b>

*Table 4. Open recommendations (ongoing and not implemented) by year*

Year of recommendation	Number	Per cent
2020	34	57
2019	12	20
2018	11	18
2017	2	3
2016	1	2
<b>Total</b>	<b>60</b>	<b>100</b>

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’s (EA) Assessment	Status:			Priority
						I: Implemented	O: Ongoing	N: Not implemented	
						I	O	N	
IMPLEMENTED RECOMMENDATIONS									
1	2020	A 1.1.1. IDB.49/3 PBC.37/3	<b>Joint operations: MRRF accounting</b> UNIDO accounted 50 per cent of share in MRRF that relates to VBOs. EA recommended 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.	Implemented since 2020 financial statements; suggest closing this recommendation	EA admits the implementation of recommendation since 2020 financial statements and agrees to close this recommendation.	X			High
2	2020	A 1.1.2. IDB.49/3 PBC.37/3	<b>Period-end closing procedures</b> Lack of regular period closing procedures and poor controls over SAP period closure may lead to missed errors in financial statements. EA recommended that Management develop formal policy on period end controls and establish formal closure procedures (including a procedure for period closure/reopening in SAP). In addition, performing monthly or quarterly closure procedures is encouraged.	Addressed in Accounting Manual: 02 AcctMan – Monthly Closure procedures (draft).docx; suggest closing this recommendation	EA notes that a new Accounting Manual “Monthly closure procedures” has been developed and agrees to close recommendation.	X			Low
3	2020	A 1.1.6. IDB.49/3 PBC.37/3	<b>Disclosure of segments</b> No geographical areas are included in current segment reporting, while some stakeholder decisions are driven by such information. EA recommended that additional disclosures regarding geographical segments be presented in order to provide stakeholders with greater insight into UNIDO’s operations.	No update, critical stakeholders have not, as yet, expressed interest to change reporting segments.	EA has taken into account the commentaries provided and suggests closing the recommendation.	X			Low
4	2020	A 1.2.1. IDB.49/3 PBC.37/3	<b>Cash Management</b> Significant cash balances create additional pressure on UNIDO to hold funds at zero or positive interest rates. EA recommended that Management continue regularly reviewing the investment portfolio to minimize the impact of negative interest rates.	This is being done, on a regular/daily basis and UNIDO did not incur any negative interest charges	EA acknowledges UNIDO’s activities in the cash management area and considers the recommendation implemented.	X			Medium
5	2020	A 1.3.2. IDB.49/3 PBC.37/3	<b>Voluntary contributions: revenue and receivables</b> Only revenues and receivables arising from binding agreements shall be recognized; FY 2019 financials were restated. We recommended 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.	Implemented since 2020 financial statements; suggest closing this recommendation	EA admits the implementation of the recommendation since the 2020 financial statements and agrees to close it.	X			High

No.	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor's (EA) Assessment	Status:			Priority
						I	O	N	
6	2020	A 1.3.3. IDB.49/3 PBC.37/3	<b>Accounts receivables: allowance for doubtful accounts</b> Allowance is recognized only for assessed contributions, while other receivables may also be considered. EA recommended 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 EA recommended considering the new requirements and plan the transition accordingly.	Implemented in the 2021 financial statements; suggest closing this recommendation	EA admits the implementation of the recommendation in the 2021 financial statements and agrees to close it.	X			Low
7	2020	A 1.4.3. IDB.49/3 PBC.37/3	<b>Impairment analysis</b> UNIDO performs physical observations and decides if an impairment loss exists. EA recommended 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, EA encourages 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.	Implemented, suggest closing the recommendation	EA has reviewed the Internal note Assessment of impairment and suggests closing this recommendation.	X			Medium
8	2020	B 4.1. IDB.49/3 PBC.37/3	<b>Budget planning</b> Justification of the budget expenditure is performed only for amounts that exceed the previous budget. EA recommended that Management consider requesting a justification for expected expenditures for the upcoming biennium and not only for those amounts that exceed previous budgets in order to ensure that the regular budget is used effectively.	The 2022–2023 budget has been provided in the new results-based format outlining, inter alia, expected results in all areas and under all sources of funding including voluntary contributions. Member States commended UNIDO's move towards the RBB as reflected in the GC.19 decision GC.19/Dec.16 para. (d)	EA notes UNIDO's actions in this aspect and suggests closing this recommendation.	X			Medium
9	2020	B 4.3. IDB.49/3 PBC.37/3	<b>Distribution RB between TC projects</b> Lack of information on allocating regular budget funds to programme and budgets projects. EA recommended, when budgeting for subsequent bienniums, to present data on the use of the 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.	See comment under B 4.1.	EA notes UNIDO's actions in this aspect and suggests closing this recommendation.	X			Low
10	2020	B 5. IDB.49/3 PBC.37/3	<b>Procurement</b> EA recommended that Management make sure purchases with waivers are kept at a minimum, since 53 per cent (€73.8 million) of purchases were performed without competition in FY 2020.	Ref. response provided by PRO on 12 January 2022 and the attached table of waiver ratio to total number of POs for 2021 extracted from SAP. The latter shows a ratio of 32.32 per cent of waivers in 2021. In addition, with the introduction of the new Grants Manual, the waiver under previous Fin. Rule 109.5.5. a) viii) is discontinued.	EA has considered UNIDO's response and suggests this recommendation be closed.	X			Medium

No.	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor's (EA) Assessment	Status:			Priority
						I: Implemented	O: Ongoing	N: Not implemented	
						I	O	N	
11	2019	Para. 32 IDB.48/3 PBC.36/3	<b>Voluntary Contributions Receivable – Advance</b> 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.	The Donor Dashboard has been implemented to support this process and further finance innovations on financial reporting using BOTS are being implemented in Q1 and Q2 2022.	EA observed a demonstration of the Donor Dashboard which represents online tools, where top-10 donors can monitor the project expenses incurred. EA agrees to close this recommendation.	X			High
12	2019	Para. 51 IDB.48/3 PBC.36/3	<b>Grant of additional advances despite absence of delivery for prior advances and advance payment with no delivery for more than a year</b> 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.	An up-to-date list of all advance payments indicating specific contract and purchase order number is issued and circulated on a regular basis by the Finance Department to the Procurement Officers/PRO. It uses accurate data from the backend finance system (i.e. exact amounts of all pending advance payments released by the Finance Department/APT). This list is reviewed by the Procurement Officers team and actions are taken if and when applicable. In addition, within the contract management requirements the "tracking data functionality" is already in function and enables the tracking of progress payments such as advance payments and related deliverables (e.g. reports etc.). However, the list of the Finance Department is considered the more adequate tool from a purely monitoring point of view of advance payments. It is proposed to close this recommendation.	EA notes UNIDO's actions in this aspect and agrees to close this recommendation.	X			Low
13	2019	Para. 93 IDB.48/3 PBC.36/3	<b>Fraud reporting mechanisms</b> 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.	On 21 September 2021, the investigation policy was promulgated which provides for a central intake mechanism of allegations of wrongdoing, including fraud. EIO is continuously and closely coordinating with HR and EAO on the operationalization of the central intake mechanism.	EA acknowledges UNIDO's initiatives undertaken in this aspect and suggests closing this recommendation.	X			Medium
14	2019	Para. 102 IDB.48/3 PBC.36/3	<b>Guidelines and clearly defined roles and responsibilities in the implementation of contract management</b> 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.	As part of the trainings provided, the roles and responsibilities detailed in the SOPs have been further clarified in various guidance (PPTs, workflows, etc.) to better explain who is responsible for what action. ROTC teams continue to monitor the performance of contractors and update the project team on the status of the procurement case. TOR has been established and classified by HRM for the team leaders.  [PRO] Contract management-related training is provided on an ongoing basis. With regard to the new contract management functionalities, user guides have been prepared (for functionalities already in place) and similar guides will be provided for the functionalities not yet in use. In addition, where relevant for centralized and decentralized procurement (i.e. "Debriefing of Vendors Functionality" specific information was prompted directly in the SRM system entrance page to alert users about the new functionality (e.g. debriefing of bidders) which short information and where to find guidance. Furthermore, PRO team leaders in the past included and will continue to include contract management-related training (general process and importance as well as new functionalities) during live (online) sessions with their respective ROTC teams. Last but not least, the procurement service desk (one dedicated staff member) for all SRM-related technical requirements of users at HQs and in the field office is available to assist users and provides ad hoc training on the functionality as and when required to individual staff (of particular importance when new staff are assigned to projects, etc.).  It is proposed to close this recommendation.	EA acknowledges UNIDO's initiatives undertaken in this aspect and suggests closing this recommendation.	X			Medium

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15	2019	Para. 127 IDB.48/3 PBC.36/3	<b>Monitoring guidelines for vendor performance under LTAs</b> 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.	No all-inclusive contract management document is planned at this point in time as functionalities are rolled out in a phased manner and a lessons-learned phase is required. LTA guidance notes have been made available for the specific LTAs or specific LTA user groups on the Procurement Services Division's intranet page on a step-by-step basis including LTA specific information for users e.g. with regard to freight forwarding, training costs, asset relevance of items etc. These guidelines are updated if and as required (e.g. changes of order process/supplier contacts etc. or as lessons learned/feedback received from users). As most of the LTAs are developed for specific user groups e.g. IT, BMS, Montreal Protocol, respective groups have been/are being trained on a continued basis and feedback is considered throughout the monitoring process, in particular, with regard to the extension of LTAs or the launching of new tenders for the same/similar LTAs. Performance of LTAs providers can be included in the new contractor performance functionality on a case-by-case (call-off by call-off basis).	EA has considered UNIDO's response and suggests closing the recommendation.	X			Medium
16	2019	Para. 144 IDB.48/3 PBC.36/3	<b>Hydrochlorofluorocarbon phase-out management plan in the room air-conditioner sector in China, stage I Project timelines</b> 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 HPMP stage I for the RAC sector in China was extended until the end of 2021, but no further extension was requested, and the project is operationally completed. Whereas the final disbursement numbers from FECO are not yet available, the majority of the funds under HPMP stage I has been disbursed. Any balance will be returned to the MLF. In regards to potential export, UNIDO can inform that one container of R-290 split air conditioners were shipped to Germany in 2021 and expectations are that export to Europe will continue in 2022.	EA suggests that this recommendation be closed given that the project is operationally closed.	X			Medium
17	2018  2016	Para. 63 IDB.47/3 PBC.35/3  Para. 35 IDB.45/3–PBC.33/3	<b>Structured financial guidelines</b> 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.	Continuous work-in-progress; pending APT work-priorities; 3 new AM introduced in 2021; one updated	EA recognizes that UNIDO has updated and issued the following accounting manuals in 2021: 1. Revenue recognition (update); 2. BMS accounting (update); 3. Monthly closure procedures; 4. Imprest account instructions; 5. Accounting for Grants and IPs; 6. Write-off procedure; 7. Assessment of impairment. EA acknowledges UNIDO efforts in this regard and considers this recommendation as implemented.	X			Medium
18	2018	Para. 68 IDB.47/3 PBC.35/3	<b>Chart of accounts (CoA)</b> 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.	There is no such functionality in SAP to describe when and in what cases each account can be used, unless compiled and provided as a one-off exercise manually in xls.	EA has considered UNIDO's response and suggests closing the recommendation.	X			Low
19	2018	Para. 107 IDB.47/3 PBC.35/3	<b>Ethics-related policies and documentation</b> EA recommended that UNIDO a. Improve and update its protection against retaliation policy by: (i) including individuals who are perceived as whistle-blowers, or as "assisting whistle-blowers", and individuals who are "about to" make a disclosure as valuable internal sources of information, and (ii) developing a mechanism for handling appeals where the non-determination of a prima facie case of retaliation is unjustified; b. Include a provision in its Conflicts of Interest policy relating to incompatible functions within the Organization to provide	In EAO's view, this recommendation is implemented. Please see the previous UNIDO response. In addition, regarding point c, the updated Investigation Policy (DGB/2021/13) was issued in September 2021.	EA has reviewed the updated Investigation Policy that contains internal mechanism and modalities of investigation and considers this recommendation to be implemented.	X			Medium

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			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.						
20	2018	Para. 120 IDB.47/3 PBC.35/3	<b>End-user procurement feedback mechanism</b> 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.	The feedback protocol is being tested under the ROTC AGR. A Quarterly Newsletter is issued and distributed to the department providing details of all procurement actions taken during the reporting period. Furthermore, surveys are also organized to obtain feedback. Based on the lessons learned, the protocol will be replicated for other departments accordingly. It is proposed to close this recommendation.	EA acknowledges UNIDO's efforts undertaken regarding this recommendation and agrees to close the recommendation.	X			Medium
21	2018	Para. 124 IDB.47/3 PBC.35/3	<b>Vendor sanctioning policy</b> 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.	DGB/2021/15 – the Policy on exclusion from UNIDO funding has been promulgated on 17 November 2021. The purpose of this policy is to specify the criteria and procedures that apply to exclude certain parties from UNIDO funding. The screening process can be performed at bidding stage or at any stage of contract execution.	EA has reviewed the Policy on exclusion from UNIDO funding that specifies exclusion criteria and procedures that have to be applied to exclude certain parties, in particular recipients of procurement contracts or grants, from UNIDO funding. Therefore, EA considers this recommendation to be implemented.	X			Medium
22	2018	Para. 166 IDB.47/3 PBC.35/3	<b>Workplan monitoring and reporting</b> EA recommended that UNIDO enhance its workplan monitoring and reporting through the development of a system including tools, templates and guidance; and make these an integral part of the corporate monitoring and reporting framework to ensure that accomplishments and progress are accurately reported and measured against planned deliveries and further support results accountability.	The new UNIDO Monitoring and Reporting Policy (DGB/2021/14) covers workplan monitoring and reporting. Templates for workplans and reporting on them have been tested throughout 2021. A dedicated system is envisaged to be set up through an administrative instruction.	EA has reviewed the new UNIDO Monitoring and Reporting Policy (DGB/2021/14) as well as monitoring templates and considers this recommendation as implemented.	X			Medium
23	2018	Para. 173 IDB.47/3 PBC.35/3	<b>Monitoring and Results Reporting on the MTPF and P and B</b> EA recommended that UNIDO improve its corporate results monitoring and reporting mechanisms and strategies to primarily promote programme results accountability by: (a) Shifting the focus of monitoring and reporting of UNIDO's programme outputs to those identified in the P and B, and how these contribute to the identified outcomes in Member States in accordance with the adopted results hierarchy; (b) Adopting a biennial assessment of performance on the P and B that reports on progress or achievement of UNIDO's outputs using defined indicators, baselines and targets, to the extent feasible or applicable, and against the resources utilized, inter alia, to facilitate reporting on the MTPF; and (c) Including the requirement and guidance on the monitoring and reporting on the MTPF as part of a corporate monitoring and reporting framework to ensure results are measured and reported on as UNIDO's accountability to Member States and other stakeholders.	The new UNIDO Monitoring and Reporting Policy (DGB/2021/14) provides the corporate framework for monitoring and reporting. The e-learning modules on the QAF and IRPF are available on the UNIDO LMS and mandatory for all staff.	EA has reviewed new UNIDO Monitoring and Reporting Policy (DGB/2021/14) as well as monitoring templates and considers this recommendation as implemented.	X			High

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24	2017	Para. 207 IDB.46/3 PBC.34/3	<b>No contract management in place</b> 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 Contract Management System is available in the OpenText production environment and was handed over to the Procurement team for the pilot phase in December 2021. End-user training and subsequent fine-tuning will commence in 2022. Further reporting needs will be assessed in the pilot phase.  The new contracts management module in SAP has been demonstrated to the EAs in December 2021. With regard to the Contract Management System functionalities, the "Automatic Debriefing of Vendors" and "Tracking of Contract Data" are already functional. The "Contract Template Functionality" system is 95 per cent ready for final testing and thereafter to launch to the entire PRO team for final review prior to going live on a roll-out basis, i.e. as and when individual contract templates for various procurement requirements (goods, services, works etc.) are available. The "Contractor Performance Evaluation Functionality" is in the final testing stage and will go live as soon as the reporting tool is provided by the IT Department. System live demo provided by PRO and IT team to External Auditor team in December 2021.	EA has observed the demonstration of the Contract Management Module in SAP and suggests closing the recommendation.	X			High
<b>ONGOING/NOT IMPLEMENTED RECOMMENDATIONS</b>									
25	2020	A 1.1.3. IDB.49/3 PBC.37/3	<b>Processing of manual journal entries</b> Lack of control over manual journal entries may lead to unauthorized or fraudulent transactions. EA recommended 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.	Previous comments are still applicable; no update	EA reviewed that control procedures over creation and posting of manual journal entries have not been developed and implemented. EA recommends developing a management action plan to identify priority and appropriate response actions allocated to further periods.		X		Medium
26	2020	A 1.1.4. IDB.49/3 PBC.37/3	<b>Accounting adjustments</b> Manual and automatic adjustments shall be controlled to prevent and detect unauthorized or fraudulent transactions. EA recommended 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.	Previous comments are still valid; no update	EA recommends developing a management action plan to identify priority and appropriate response actions allocated to further periods.		X		Medium
27	2020	A 1.1.5. IDB.49/3 PBC.37/3	<b>Manual SAP data source modification</b> Unauthorized modification of critical system data may result in breaches of data integrity and consistency. EA recommended: 1. Reconsidering the current approach to the processing of direct changes and minimize the number of such changes. 2. Performing an inventory of user accounts with authorizations to process direct changes in SAP tables in order to identify whether redundant and/or superfluous authorizations have been granted. 3. Implement regular monitoring procedures over the validity and relevance of direct changes made in SAP tables.	1. A limited number of standard use cases (e.g. certain master data upload, incl. salary scales, exchange rates, etc.) are approved for direct changes in SAP tables 2. ITS has already removed all access rights that were not relevant for the approved cases. 3. Direct table changes are being monitored and validated	EA notes that the overall number of direct changes to SAP ERP tables is still excessive (784 items between January 2021 and October 2021, while there were 1,223 items in total in FY2020). During an interview with the ITS team, we also confirmed that no formal detective control has been established to ensure that direct table changes are processed in line with the approved request. Informal verification may be performed by change initiators, but the results of such reviews are not documented. EA considers this recommendation as not implemented.		X		High

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28	2020	A 1.3.1. IDB.49/3 PBC.37/3	<b>Assessed contributions: revenue and receivables</b> Nearly 90 per cent of ACs are collected and spent, while the outstanding 10 per cent is refunded if not renounced by Member States.	This issue has been discussed with Member States on many occasions, more recently in the Informal Working Group on PBC-related issues. Use of the WCF to off-set part of the late payments was endorsed by Member States at GC.18 and thus reduced the amount of refunds – unutilized balances.	EA acknowledges the efforts made regarding this recommendation and will return to the update status request in 2022.		X		High
	2019	Para. 21 IDB.48/3 PBC.36/3	EA recommended that Management either amend FR provisions 4.2 (b) and (c) to allow UNIDO to use late payments of assessed contributions, or increase the Working Capital Fund (WCF), so UNIDO could release the budget in the amount of AC approved at the General Conference.						
	2017	Para. 43 IDB.46/3 - PBC.34/3	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.						
29	2020	A 1.4.1. IDB.49/3 PBC.37/3	<b>Completeness of capitalized assets</b> EA recommended 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.	Previous comments still applicable; no IT resources allocated yet to address this recommendation	EA notes the existence of manual controls in the field where an automation is required. Lack of automatic linkages exposes the vulnerability of internal controls and may lead to erroneous transactions. EA recommends developing a management action plan to identify priority and appropriate response actions allocated to further periods.			X	Medium
30	2020	A 1.4.2. IDB.49/3 PBC.37/3	<b>TC equipment expensed</b> EA recommended 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 the physical conditions of the asset under an agreement with the donor, the burden of maintenance shall be transferred to the 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).	No further comment, the statement on revenue recognition is correct, except it is a “surplus” not a “deficit” (IPSAS revenue is recognized sooner, when an asset is purchased, then the expense, when assets depreciate/retire), i.e. the sooner the transfer and retirement of the asset from the books, the sooner the expenses are matched with income.	EA encourages UNIDO FIN plans to perform thorough review of TC assets with the project manager with further adjustment of fixed assets ledgers to reflect its physical status. EA will return to this recommendation next year.		X		Medium
31	2020	A 1.4.4. IDB.49/3 PBC.37/3	<b>PPE: Physical observation</b> UNIDO performs physical observation “book to floor” and relies on an RTLS. EA recommended that UNIDO develop stocktaking instructions that explicitly designate employees to be responsible for the count. In addition, EA encouraged 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.	Ongoing	EA acknowledges UNIDO's initiatives to implement the current recommendation and will return to it next year.		X		Medium
32	2020	A 1.5.1. IDB.49/3 PBC.37/3	<b>Accounts payables</b> Accruals are performed manually and as a result may be omitted. EA recommended that Management consider the following: • 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	Previous comments still applicable; pressing IT priorities and limited resources for exploring automatic accruals; SRM PO structure and delivery dates not maintained reliably to implement automatic accruals	EA notes the existence of manual controls in the field where an automation is required. Lack of automatic linkages exposes the vulnerability of internal controls and may lead to erroneous transactions. EA recommends developing a management action plan to identify priority and appropriate response actions allocated to further periods.		X		Medium

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			orders correctly, including proper indication of delivery date, and perform search for unrecorded liabilities by analysis of delivery date in purchase orders.							
33	2020	B 1.1. IDB.49/3 PBC.37/3	<b>Field offices' location and functionality</b> TC activities and the UNDS reform are not reflected in UNIDO's organizational structure. EA recommended that Management gradually increase the role of FOs in delivery of technical assistance and involve FOs not only in the identification stage for making contact with local officials and local donor communities, but also in 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 FO locations in accordance with the considerations given above and, inter alia, include political and budgetary issues; • Assess technical skills of FO employees and consider training, if necessary; • Consider implementation of individual and FO KPIs in accordance with the SMART model in order to ensure monitoring of the functions indicated in ToR.	PPC: As previously explained, the recommendation has been or is, at least partly, implemented. UNIDO Secretariat Structure 2020 promulgated on 26 May 2020 as DGB/2020/04 spells out the roles of ODG/SPQ/SPC and RFC/PPC/CPD the role in supporting UNIDO's participation in the UNDS work (see <a href="https://intranet.unido.org/intranet/images/5/5a/DGB_2020_04_20200526_a.pdf">https://intranet.unido.org/intranet/images/5/5a/DGB_2020_04_20200526_a.pdf</a> ). The Terms of Reference (ToR) of UNIDO's Field Offices promulgated on 22 September 2020, DGB/2020/09 <a href="https://intranet.unido.org/intranet/images/e/e0/DGB202009_TOR_UNIDO_Field_Offices.pdf">https://intranet.unido.org/intranet/images/e/e0/DGB202009_TOR_UNIDO_Field_Offices.pdf</a> provide more details on the role of the Field Offices in TC activities and their contribution of the Organization to the UNDS work at the country level. Concerning the implementation role of the FOs, former comments prevail noting, in particular, that based on skills, experience and field office capacity, URs and UCRs are already holding allotments and do implement projects. However, the main focus of their work remains in the identification, formulation, monitoring and reporting phases of the TC cycle. It is of outmost importance to bear in mind the distinction between Field Offices and TC Offices whose objective is to enable TC project/programme implementation and time-bound to the duration of a given project/programme. It is also worth mentioning that field office locations are the result of the historical, political and budgetary decisions of UNIDO Member States. PFC continues to assess and identify gaps in the skills and knowledge of UR/UCRs and designs and delivers training sessions as done in 2020–2021 to equip field staff with the necessary analytical skills, and knowledge about areas such as industrial policy and the like.	EA acknowledges that PFC has developed a methodology for rapid cost-benefit analysis of field offices and tested it on three countries in the Latin America region. However, the analysis results have not yet been interpreted and translated into specific recommendations or action plans. In addition, the data provided for the analysis are rather high-level, that in our opinion is not sufficient to make decisions on optimization of field offices. We recommend updating the methodology and including more information in the survey. We recognize the continued efforts of PFC to identify gaps in the skills and knowledge of FO personnel and provide necessary training, however, we strongly recommend performing a comprehensive assessment of the technical and soft skills and competencies of FO personnel and developing a strategy to align the existing skills and knowledge with those required for successful performance of FO tasks. We examined the KPI of selected FO personnel and came to the conclusion that most goals indicated on the individual level cannot be measured or in other ways do not comply with the SMART model. We recommend continuing the improvement of the KPI setting for FO personnel in accordance with the SMART model.		X		High	
34	2020	B 1.2. IDB.49/3 PBC.37/3	<b>UNIDO Secretariat Structure 2020</b> The functions of the organizational entities are described only at a very high level. EA recommended 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.	SPQ has taken note of this recommendation and will advise ODG accordingly in anticipation of future changes in the Organization.	EA acknowledges the efforts made regarding this recommendation and will return to the update status request in 2022.			X		Low
35	2020	B 2.1. IDB.49/3 PBC.37/3	<b>Project management</b> The outdated methodology has already been acknowledged by Management and the response has been initiated (a new edition of the integral project management guidelines is planned for 2021). There are a few points for consideration: - Plan introductory activities in advance, such as training 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. - The functions and responsibilities that align with the current organizational structure.	1. The Organizational structure is under a process of revision at the moment; 2. The TC Guidelines are in an advanced stage of preparation and will be completed upon finalization of the new structure, aligning the functions and responsibilities with TC delivery; 3. The new TC Guidelines have dedicated guidelines for reporting, based on the Organization's requirements as well as the major donors; 4. The reporting requirements identification is facilitated by the introduction of the programmatic standard modules for TC delivery; 5. The need for introductory seminars and other supporting tools to the new TC Guidelines has been recognized and UNIDO will continue in its efforts to facilitate their roll-out	EA notes that the implementation of the recommendation has not yet been finalized due to the ongoing process of new TC Guidelines promulgation and requires review in the next FY. It is highly recommended to make best efforts in communicating the new Guidelines to all staff and ISA holders, providing training, webinars and other practical support to ensure the correct implementation of new Guidelines throughout the organization. Completion of related trainings should be included into personal KPI of the personnel concerned and followed up by HRM/administrative assistants.		X		Medium	
	2018	Para. 191 IDB.47/3 PBC.35/3								

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			<ul style="list-style-type: none"> <li>- 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, – incorporate the approach to project closure.</li> <li>- Include reporting guidelines that consider demands and requirements of the donors as well as that of the organization.</li> </ul>	and use in the Organization.					
36	2020	B 2.2.1. IDB.49/3 PBC.37/3	<p><b>One-size-fits-all project management approach</b></p> <p>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.</p> <p>EA recommended UNIDO perform a thorough analysis of:</p> <ul style="list-style-type: none"> <li>• UNIDO's portfolio to understand the different project types and develop policy covering:</li> <li>- The scope of UNIDO's project management (i.e. what types of activities should be managed as projects);</li> <li>- Potential project tiers (by complexity, budget, strategic importance, risks, industry, output, etc.).</li> <li>• Develop a project management model that recognizes different tiers and classes of projects:</li> <li>- Formulation, appraisal and approval mechanisms, e.g. use of less complicated workflow for standard projects;</li> <li>- Implementation and quality control.</li> <li>• 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.</li> </ul>	The response and status remain the same. The updated FAA process is integrated into the updated "Administrative and Operational Guidelines for the Life Cycle of Development Cooperation Programmes and Projects" (short: DCGs), which are currently under promulgation.	EA acknowledges the efforts made regarding this recommendation and will return to updating its status after DCGs issuance.		X		Medium
37	2020	B 2.2.2. IDB.49/3 PBC.37/3	<p><b>Project management quality: areas for improvement</b></p> <p>EA recommended performing the following:</p> <p><i>Formulation, appraisal and approval process:</i></p> <ul style="list-style-type: none"> <li>• Reconsider the composition and roles of reviewers, including the extent and timing of their engagement.</li> </ul> <p>B 2.2.2. <i>Internal monitoring standards and tools:</i></p> <ul style="list-style-type: none"> <li>• Establish internal reporting mechanisms with defined formats, responsibilities, clear and standard performance metrics focused on quantitative and RAG indicators.</li> <li>• Develop portfolio progress dashboards and provide detailed descriptions of the monitoring steps required.</li> </ul> <p>B 2.2.2. <i>Description of the implementation stage:</i></p> <ul style="list-style-type: none"> <li>• Divide the implementation stage into several phases, including inception, core execution and closing.</li> <li>• Define a set of key deliverables for each phase and develop standard templates and appraisal, approval and storage procedures for these deliverables.</li> </ul> <p>B 2.2.2. <i>Quality control procedures during the implementation stage</i></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Perform regular quality reviews of status reports and deliverables and implementation of a stage-gate process.</li> </ul>	The updated "Administrative and Operational Guidelines for the Life Cycle of Development Cooperation Programmes and Projects" (short: DCGs) are currently under promulgation. They are divided into the specific stages of the life cycle. They include an updated FAA process as well as a detailed section on Monitoring and Reporting. The latter is fully aligned with and operationalizes the new Monitoring and Reporting Policy (DGB/2021/14), and it contains a programme- and project-at-risk system, which is aligned to the quality criteria stipulated in the Quality Assurance Framework (DGB/2019/11) and fiduciary standards.	EA acknowledges UNIDO's initiatives regarding this recommendation and will return to updating its status after DCGs issuance.		X		High
38	2020	B 3.1. IDB.49/3 PBC.37/3	<p><b>FCR improvement</b></p> <p>Current FCR does not provide full recoverability of total indirect costs arising during TC project implementation. EA recommended that Management:</p> <ul style="list-style-type: none"> <li>• Continue its best efforts at launching FCR and focusing on</li> </ul>	<p>2021 was a year of consolidation and mainstreaming of FCR.</p> <p>Efforts have been made with GEF, GCF and EU to increase FCR with some success. There is an informal agreement with GCF and GEF on the eligibility of TOS and DSC. As for EU –</p>	EA recognizes the initiatives that UNIDO has undertaken. EA suggests keeping this recommendation as ongoing for tracking purposes in respect to the following aspects:		X		Medium
					1. introduction of timesheets for all project staff				

No.	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor's (EA) Assessment	Status:			Priority
						I	O	N	
			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.	UNIDO has supported the drafting of the terms of reference with other UN agencies on Simplified Cost Options (SCO) for DSC eligibility, but we are still waiting to be ex-ante assessed. To expand the scope of timesheets for all staff and ISA holders to include direct services. This requires an executive management decision that needs to take into account the changes to policies, procedures, HRM implications, ERP system changes, resources needed including a cost benefit analysis. This is not specific to CMO/FIN but has a much larger impact. Due to other ITS ERP priorities and resource constraints CATS improvements have been limited to enabling assistants to enter timesheets on behalf of project managers plus other minor technical issues resolved in 2021. The FCR dashboard is still pending but, in the meantime, FIN produce quarterly reporting to monitor the overall cost recovery by major funding partners.	2. creation of system functionality to enable the analysis of all actual project costs occurred.				
39	2020	B 4.2. IDB.49/3 PBC.37/3	<b>Budget transfers</b> Lack of flexibility in transfers of expenditures. EA recommended 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.	The UNIDO Director General presented the proposal to the 37th session of the PBC and subsequently to the 49th session of the IDB through the Informal Working Group on the PBC-related issues. The proposal was thoroughly reviewed at numerous meetings of the IWG, however, no consensus has been reached.	EA acknowledges the efforts made regarding this recommendation and will return to the update status request in 2022.		X		Low
40	2020	B 5.1. IDB.49/3 PBC.37/3	<b>Shopping cart administration</b> Shopping carts and purchase orders contain excessive categories that lead to errors that must be resolved at later steps. EA recommended: (a) Revising the list of product categories to make it shorter and easier to 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.	(a) Product Categories codes are based on the UN unified product codes system, and they are required for our UN reporting. (b) Recommendation noted, internal training will be continued. With introduction of ROTC only a restricted and more trained group of personnel is in charge of reviewing SC and POs. (c) Noted.	EA recognizes that UNIDO is taking all necessary measures in this regard. However, during the audit, we still found instances of incorrect data in shopping carts. EA believes that UNIDO will continue to conduct similar activities on an ongoing basis. We suggest that this recommendation be closed, assuming that the new recommendation provided in the report above regarding procurement centralization will minimize the number of detected errors.		X		Medium
41	2020  2017	B 5.2. IDB.49/3 PBC.37/3  Para. 191 IDB.46/3 PBC.34/3	<b>Lack of a procurement plan</b> The lack of a procurement plan can lead to management inefficiency.  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.	Procurement plans are now established and shared internally on a quarterly basis by each relevant department.	EA has been provided with the examples of procurement plans prepared by the UNIDO Departments in 2021. Therefore, EA acknowledges procurement plans existence and use by Procurement Services Division for operational purposes. At the same time, we encourage UNIDO to make these plans publicly available posting them on the UNIDO websites or on the UN Global Marketplace in order to increase transparency, ensure healthy competition and raise economy and efficiency in the use of funds. Procurement plans may be published either in a consolidated format or grouped at the UNIDO Department level and broken down by theme.		X		Medium
42	2020	C 1.1. IDB.49/3 PBC.37/3	<b>Segregation of duties within IT-function</b> Critical functions are not properly segregated at both organizational and operational level. EA recommended that Management avoid SoD conflicts and implement regular monitoring controls in order to identify and/or prevent SoD violations.	• Regular monitoring and controls are in place based on applicable internal Standard Operating Procedures (Change Management, Problem Management, Service and Incident Management). These IT controls are listed in the upcoming UNIDO Internal Control Framework Guide • No changes in Access Rights	EA has observed that the functional responsibilities of ITS staff have not been segregated and considers this recommendation as ongoing. Responsibility for development, implementation, and SAP Basis activities (system-level controls) should be assigned to different staff members.		X		Critical

No.	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor's (EA) Assessment	Status:			Priority
						I	O	N	
43	2020	C 1.2. IDB.49/3 PBC.37/3	<b>Privileged account management</b> Critical permissions are not properly restricted. EA recommended 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.	In addition to the regular monitoring and review of DDIC usage previously reported, ITS has now locked down the privileged user SAPSUPPORT and only activates it on demand for a requested period.	EA notes that most critical issues have not been resolved; (1) An excessive number of accounts with SAP_ALL/SAP_NEW profiles assigned; (2) Access to the standard DDIC user account is not blocked; (3) Access to S Service user accounts is not properly restricted; (4) Existence of 3 non-personified privileged accounts		X		Critical
44	2020  2017	C 2.1. IDB.49/3 PBC.37/3  Paras. 160, 183, 184 IDB.46/3 PBC.34/3	<b>Information security management and support</b> UNIDO has yet to develop an information security policy to address critical IS governance requirements. EA recommended the following: • 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.	UNIDO is in the process of finalization and promulgation of policies that improve Data Governance (Data Protection and Information Disclosure).  Presently, UNIDO lacks resources to establish the IS function, UNIDO understands it should be independent from the (operational) IT.	EA noted UNIDO's response and will return to this recommendation next year.			X	High
45	2020	C 2.2. IDB.49/3 PBC.37/3	<b>Information security risk management process needs improvement</b> EA recommended the following: • 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 road map. • 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.	No change since November 2021. UNIDO has not managed to make resources available to create this function and operationalize a future policy	EA noted UNIDO's response and will return to this recommendation next year.			X	High
46	2020	C 2.3. IDB.49/3 PBC.37/3	<b>Vulnerability management process needs improvement</b> EA recommended 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.	• UNIDO continuously assesses key vulnerabilities and other factors affecting the security of its Internet-facing systems with a third-party tool (Security Scorecard). UNIDO has consistently kept an "A" rating on the risk assessment calculated by that tool. • A Penetration Test is included in the 2022 Workplan. • Other proposals to address this recommendation require additional resources so have yet to be planned. Member States, while endorsing proposals in principle, only partially approved funding in the biennium 2022–2023.	EA notes that assessments indicated in UNIDO's response primarily target external vulnerabilities while internal vulnerabilities could be overlooked. A schedule for repetitive assessments has not been developed. EA recognizes UNIDO's efforts to implement the current recommendation and will return to it next year.		X		Medium
47	2020	C 2.4. C 2.5. IDB.49/3 PBC.37/3	<b>Access was gained to sensitive data from the internal information exchange service. Penetration test</b> • EA recommended 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.	The proposal to increase the IT budget was only partially supported by Member States for the biennium 2022–2023. Certain key initiatives linked to addressing the root causes of the successful access to internal data, such as the implementation of Multi-Factor Authentication, are delayed until resourcing is addressed.	EA acknowledges that critical vulnerabilities identified through the penetration test have been remediated. At the same time, EA notes that the existing overall level of cybersecurity does not guarantee sufficient protection against further attacks and process for vulnerability management must be established.		X		Critical

No.	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor's (EA) Assessment	Status:			Priority
						I	O	N	
			<p>These following recommendations have the highest priority:</p> <ul style="list-style-type: none"> <li>• Address the technical vulnerabilities described in the detailed report;</li> <li>• Improve security on the xfiles.unido.org service with additional technical controls.</li> </ul> <p>These recommendations have the second highest priority:</p> <ul style="list-style-type: none"> <li>• Implement a set of measures to prevent password guessing (like CAPTCHA-test);</li> <li>• Start a vulnerability assessment and incident management programme</li> </ul>		EA will return to the update status of the recommendation in 2022.				
48	2019	Para. 29 IDB.48/3 PBC.36/3	<b>Voluntary Contributions Receivable – Advance</b> 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.	The Donor Dashboard has been implemented but will only be made available to Member States in Q1 and 2022 for the annual financial statements from 2021 along with other finance innovations to transform the process. In addition, Finance have developed a new internal procedure for long-outstanding unprogrammed balances. This will be piloted in 2022. The co-chairs of the working group have prepared recommendations for OCC – which will require consideration by the new DG and administration.	EA acknowledges UNIDO's initiatives to implement the current recommendation and will return to it next year.		X		Medium
49	2019  2018	Para. 37 IDB.48/3 PBC.36/3  Para. 37 IDB.47/3 - PBC.35/3	<b>Long-term liabilities – After Service Health Insurance</b> Continue deliberations in 2020 and come up with a proposal, comparable with other funding models within the United Nations system, where a partial funding is set up to counter the risk of pay-as-you-go schemes, for discussion with the governing bodies. Actions should be time-bound to implement the recommendations.	No major developments on ASHI took place in 2021. However, the item has been retained on the agenda and proposed to be included for further discussions at the IWG on PBC-related issues, particularly in view of the recent developments at the General Assembly in connection with the discussions of the new proposal of the UN Secretary General on ASHI, ref. A/76/373 UN SG report on Managing after-service health insurance; and A/76/579 on ACBAQ review of the SG report and recommendations to the UN GA.	EA noted UNIDO's response and will return to this recommendation next year.		X		Medium
50	2019	Para. 46 IDB.48/3 PBC.36/3	<b>Confirmation of Delivery not the actual delivery nor acceptance date of the Asset</b> Ensure the timely execution of confirmation of goods received in the SAP – FAM and Finance module to capture the correct capitalization date, which will guarantee the correct period of recording the asset procured and computing the necessary depreciation expense.	Previous comments still valid; no new update	EA has considered UNIDO's response and in order to implement the recommendation, suggests anchoring in UNIDO regulatory documents a deadline for the creation of SAP confirmation, e.g. setting a 10-day deadline from the moment of goods or services acceptance without waiting for invoices or other documents triggering payment process. EA also encourages UNIDO to establish a KPI for PM regarding timely creation of SAP confirmations in order to increase responsibility.			X	Low
51	2019	Para. 55 IDB.48/3 PBC.36/3	<b>Need to provide capacity-building activities to the PM assistants</b> Conduct technical skills and knowledge check on all users of the SAP Procurement module who are involved in the creation of shopping carts, receipts of goods, payments, recognition of assets and monitoring to identify appropriate interventions that would reduce, if not eliminate recurring errors and monitoring lapses.	Ongoing; no update	EA noted UNIDO's response and will return to this recommendation next year.		X		Medium
52	2019	Para. 63 IDB.48/3 PBC.36/3	<b>IPSAS Compliance</b> 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; pending APT work-priorities	EA noted UNIDO's response and will return to this recommendation next year. EA recommends that, in addition to standards effective as of December 2019 new standards should be taken into account when updating the UNIDO Policy Manual for IPSAS.		X		Low
53	2019	Para. 137 IDB.48/3 PBC.36/3	<b>Integration of sustainable procurement in the procurement processes</b> Intensify efforts in operationalizing sustainable procurement	“Screening of sustainability of centralized procurement actions is regularly done though UNGM website, where centralized procurements must be published and in line with	EA notes that currently, there are only high-level documents in UNIDO defining sustainable procurement. The Procurement manual does not contain specific		X		Medium

No.	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor's (EA) Assessment	Status:			Priority
						I	O	N	
			principles by including in its regular procurement processes concrete and identifiable activities that demonstrate practices for sustainable procurement.	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 ( <a href="https://docs.unido.org/OTCS/llisapi.dll/link/10089761">https://docs.unido.org/OTCS/llisapi.dll/link/10089761</a> ))"	(clear) criteria to classify a specific purchase as sustainable procurement and in fact, no sustainable procurement takes place in practice. EA suggests UNIDO develop sustainable procurement criteria and implement them in the procurement process as well as introduce a special type "Sustainable procurement" in SRM.				
54	2018	Para. 163 IDB.47/3 PBC.35/3	<b>Alignment of Workplans with the results in the P and B and the elements of RBM</b> EA recommended that UNIDO enhance its workplans and work planning process by aligning it with the results in the P and B and the elements of RBM.	Efforts to enhance the work planning process in UNIDO is included in SPQ's work programme for 2022 pending approval from senior management. The progress of the work will be synergized and planned alongside the further improvement of IRPF data collection, and the alignment with the P and B and elements of RBM.	EA acknowledges UNIDO's initiatives undertaken in this aspect and will consider the status next year.		X		Medium
55	2018	Para. 177 IDB.47/3 PBC.35/3	<b>Corporate results monitoring and reporting framework</b> 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 results monitoring and reporting framework in collaboration with the directorates, departments, divisions, FOs, and programme implementers to enable a comprehensive, transparent, reliable and evidence-based assessment of progress on the achievement of planned results that translate to full accounting of results; and (c) Formulating guidance that supports the delivery of the monitoring and reporting framework that require complete, and with better clarity and reliability to facilitate effective results, review and reporting.	The new UNIDO Monitoring and Reporting Policy (DGB/2021/14) provides the corporate framework for monitoring and reporting; specifics on requirements and processes for development cooperation programmes and projects were included in the updated "Administrative and Operational Guidelines for the Life Cycle of Development Cooperation Programmes and Projects" (short: DCGs), which are currently under promulgation. The e-learning modules on the QAF and IRPF are available on the UNIDO LMS and are mandatory for all staff. In addition, micro-learning modules are currently being prepared on RBM, IRPF, QAF, RBB and M and R. Improvements have been made to the ERP PPM for reporting on IRPF indicators.	EA considered UNIDO's response and suggests that recommendations (a) and (b) be closed. The implementation of recommendation (c) will be reviewed in 2022 after DCGs issuance.		X		High
56	2018	Para. 196 IDB.47/3 PBC.35/3	<b>Well-defined risks for projects</b> 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.	As mentioned above, the updated DCGs are currently under promulgation; they should address the recommendation.	EA acknowledges the efforts made regarding this recommendation and will return to updating its status in 2022.		X		Medium
57	2018	Para. 200 IDB.47/3 PBC.35/3	<b>Structured formulation of the Project Logframe</b> EA recommended that UNIDO: (a) Strengthen the project appraisal and approval process by ensuring that the results of the review of the logframes are integrated and given substance in the final project documents before these are confirmed/approved; and (b) Evaluate and, as necessary, redefine the role of the QUA in providing secretariat support in order that recommendations on quality EB improvements of the logframes be given due consideration before these are submitted to the EB.	The updated DCGs (currently under promulgation) include an advisory role for QUA on project design quality, which includes logical frameworks among other quality criteria (QAF DGB/2019/11 and Quality Checklist for programme and project documents refer). However, the staffing situation of the Division is still inappropriate with effectively only one P-staff: the P5-position is now on loan to ODG/ODG, and the P2 is on extended leave. This has implications for the Division's segregation of roles in appraisal vs. approval of programmes/project, as well as for becoming a bottleneck for programme/project approvals.	EA recognizes UNIDO's initiatives undertaken in this aspect and will consider the status next year.		X		High
58	2018	Para. 211 IDB.47/3 PBC.35/3	<b>Conduct of ex-post evaluation</b> We recommended that UNIDO: (a) Establish a 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	(a) Mandatory Project Evaluations continue to be funded by each project budget and need to be done during the project life cycle. EIO keep advocating for establishing the funding mechanism to move all mandatory project evaluation-allocated budgets into one fund, that will allow for complying with project evaluation requirements, and in addition, to conduct some ex-post and more programmatic evaluations	EA has taken into account the comments provided and suggests that this recommendation be closed, as the issue of post evaluation was already outlined in the report above.		X		Medium

No.	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	External Auditor's (EA) Assessment	Status:			Priority
						I: Implemented	O: Ongoing	N: Not implemented	
						I	O	N	
			required to answer current and future evaluation demands, to support the proposal for establishment of an evaluation funding mechanism.	(b) Currently, financial resources for strategic/corporate level evaluations in the P and B is zero. EIO evaluation workplans have been provided with resources by the Executive Board at around EUR 300k–350k/year (equivalent to 0.4–0.5 per cent of the regular budget). Since these resources are not included and earmarked for evaluation in the P and B, hence they are not predictable nor sustainable. It is suggested to include this percentage in the P and B, so the operational budget for evaluation becomes predictable and sustainable.					
59	2017	Para. 125 IDB.46/3 PBC.34/3	<b>Risk Management</b> EA encouraged UNIDO to develop a Statement of Internal Control (SIC).	The essential prerequisites for the SIC are still under consideration/development.	EA acknowledges the efforts made regarding this recommendation and will return to the update status request in 2022		X		Low
60	2016	Para. 100 IDB.45/3 PBC.33/3	<b>Weakness in internal control</b> 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 revised ISA Framework has been circulated to the OCC for review and comment. Received comments have been reviewed by HRM and are now part of follow-up Zoom discussions with the clients but HRM already provides the PMs/AHs with standardized rating and assessing sheets and reviews their selection decisions.	Based on the step-by-step review of the recruitment process for selected ISA holders, including review of the related documents, EA came to a conclusion that the selection process is often formally followed, but in fact project managers select consultants before initiating the recruitment process in the system, they do not actually perform assessment of the candidates and, thus, do not fill in the assessment matrix. The current policies make it easier to avoid the actual assessment as limited competitive procedures are allowed for in the ISA contracts below 200,000 EUR and practically all contracts with ISA holders are below this amount. EA recommends considering lowering the amount of the contract allowing for limited competitive procedures for ISA holders to ensure that assessment of ISA candidates is actually conducted and documented.		X		Medium

## ANNEX I. FINANCIAL STATEMENTS

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

#### Report by the Director General

1. I am pleased to present the 2021 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

	2020–21		2018–19	
	Millions of euros	Percentage	Millions of euros	Percentage
Assessed contributions receivable	138.9	100.0%	136.7	100.0%
Received by the end of biennium	124.9	89.9%	126.6	92.6%
Shortfall in collections	14.0	10.1%	10.1	7.4%

3. The rate of collection of assessed contributions for the biennium 2020–21 was 89.9 per cent, which is lower than that for 2018–19 at 92.6 per cent. The accumulated outstanding assessed contributions at year-end were €23.9 million, excluding an amount of €71.2 million due from former Member States, leading to an increase from 2020 (€21.4 million). Annex I (e), contained in conference room paper PBC.38/CRP.2 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 38 in December 2021 – in comparison to 39 in December 2020.

#### Performance based on the budget basis

4. The adoption of IPSAS in 2010 changed the basis on which the Organization's financial statements are prepared to full accrual. There has however 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 2021.

6. The comparison is based on the programme and budgets for the biennium 2020–21, as adopted by the General Conference at its eighteenth session (decision GC.18/Dec.14), consisting of a regular budget annual gross expenditure of €144.1 million to be financed from assessed contributions in the amount of €138.9 million and from other income, efficiency gains and all available resources of €5.2 million.

7. On a budget basis, the actual regular budget expenditure during the biennium 2020–21 amounted to €132.7 million (compared with €126.4 million for the biennium 2018–19), or 92.1 per cent (compared with 90.8 per cent for the biennium 2018–19) of the approved gross expenditure budget.

8. The actual collection of other income for the biennium 2020–21 amounted to €1.4 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 €131.3 million represents 94.5 per cent of the net regular budget appropriations of €138.9 million. The resulting balance of net appropriations as at 31 December 2021 amounted to €7.6 million (see annex I (a) and I (b), PBC.38/CRP.4).

9. In the operational budget for the year 2021, the reimbursement for programme support costs amounted to €16.4 million (for 2020: €16.8 million). Expenditure was recorded in the amount of €17.3 million (for 2020: €15.9 million), resulting in a deficit in the amount of €0.9 million (2020: surplus of €0.9 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 €21.6 million, compared with an opening balance of €22.4 million, including a statutory

operating reserve of €3.0 million. Through cost recovery, the Organization generated €2.7 million in 2021 (2020: €2.4 million), a part of which was earmarked to fund increases in regular and operational budget estimates in the 2022–2023 biennium.

10. Technical cooperation delivery for the year 2021, as measured under IPSAS, amounted to €175.3 million in expenditure, compared to €145.8 million in 2020. More information on UNIDO's technical cooperation services is available in the *Annual Report of UNIDO 2021* (IDB.50/2-PBC.38/2).

11. The healthy cash balance of €365.3 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 2021.

### **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, among others, also reflect a change of name to "Independent Oversight Advisory Committee (OAC)". 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 EIO and the OAC report independently on their activities to the Industrial Development Board.

## **Conclusion**

14. In 2021, the COVID-19 pandemic had the world firmly in its grip for the second consecutive year. The consequences have been dramatic and went far beyond a health emergency, impacting on livelihoods, education, inequalities, poverty, economic growth and global stability. I am determined to address these global challenges by making UNIDO an even stronger international platform to facilitate the transfer of knowledge and technology, promote investments and foster global partnerships to advance inclusive and sustainable industrial development towards the achievement of the 2030 Agenda for Sustainable Development.

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 our funding partners for their continuous support. I thank all UNIDO personnel for their dedication and contribution to the achievements of the Organization.

Gerhard Müller  
Director General

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31 DECEMBER 2021**

**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 judgments 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.

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.

Gerhard Müller  
Director General

George Perera  
Director, Department of Finance

Vienna, 31 March 2022

**UNIDO**

**Statement 1: Statement of financial position as at 31 December 2021**

*(Thousands of euros)*

		31 December 2021	31 December 2020 (restated)
	<i>Note</i>	€ '000	€ '000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	2	454,449	438,465
Accounts receivable (non-exchange transactions)	3	198,938	180,561
Receivables from exchange transactions	3	2,155	3,562
Inventory	4	752	800
Other current assets	5	24,103	19,216
<b>Total current assets</b>		<b>680,397</b>	<b>642,604</b>
<b>Non-current assets</b>			
Accounts receivable (non-exchange transactions)	3	48,051	30,304
Property, plant and equipment	7	71,347	66,255
Intangible assets	8	703	646
Other non-current assets	9	4,564	5,214
<b>Total non-current assets</b>		<b>124,665</b>	<b>102,419</b>
<b>TOTAL ASSETS</b>		<b>805,062</b>	<b>745,023</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable (exchange transactions)	10	13,313	12,624
Employee benefits	11	11,184	9,728
Transfers payable (non-exchange transactions)	10	29,617	22,964
Advance receipts and deferred income	12	82,022	59,970
Other current and financial liabilities	13	28,147	16,731
<b>Total current liabilities</b>		<b>164,283</b>	<b>122,017</b>
<b>Non-current liabilities</b>			
Employee benefits	11	243,817	245,414
Other non-current liabilities	13, 22	29,858	31,168
<b>Total non-current liabilities</b>		<b>273,675</b>	<b>276,582</b>
<b>TOTAL LIABILITIES</b>		<b>437,958</b>	<b>398,599</b>
<b>NET ASSETS</b>			
Accumulated surpluses/(deficits) and fund balances	14	346,219	326,472
Reserves	15	20,885	19,952
<b>TOTAL NET ASSETS</b>		<b>367,104</b>	<b>346,424</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>805,062</b>	<b>745,023</b>

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

**UNIDO****Statement 2: Statement of financial performance for the year ended 31 December 2021**  
(Thousands of euros)

		31 December 2021	31 December 2020 (restated)
	<i>Note</i>	€ '000	€ '000
<b>REVENUE</b>			
Assessed contributions	16	69,462	69,462
Voluntary contributions	16	166,318	119,780
Investment revenue	16	674	578
Revenue producing activities	16	21,757	21,605
Other income	16	2,678	3,147
<b>TOTAL REVENUE</b>		<b>260,889</b>	<b>214,572</b>
<b>EXPENDITURE</b>			
Personnel costs and benefits	17	129,046	123,357
Operational costs	17	32,148	32,128
Contractual services	17	82,133	53,569
TC equipment expensed	17	10,982	15,519
Depreciation and amortization	17	7,764	7,816
Other expenses	17	2,009	487
<b>TOTAL EXPENDITURE</b>		<b>264,082</b>	<b>232,876</b>
<b>Operating Surplus/(Deficit)</b>		<b>(3,193)</b>	<b>(18,304)</b>
Currency translation gains/(losses)	17	24,915	(37,979)
<b>SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD</b>		<b>21,722</b>	<b>(56,283)</b>

*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 2021 (Thousands of euros)

		Accumulated surplus/(deficit)	Reserves	Total net assets
	Note	€ '000		
Net assets as at 31 December 2019		395,445	20,173	415,618
<b>Movements during the year</b>				
Actuarial valuation gains/(losses) on employee benefit liabilities		(10,702)	-	(10,702)
Transfer (to)/from provision for delayed contribution		(1,241)	-	(1,241)
Transfer to/(from) reserves		-	(221)	(221)
Other movements recognized directly in net assets		7	-	7
<b>Net movements recognized directly in net assets</b>		<b>(11,936)</b>	<b>(221)</b>	<b>(12,157)</b>
Credits to Member States		(754)	-	(754)
Net surplus/(deficit) for the year		(56,283)	-	(56,283)
<b>Total movement during the year</b>		<b>(68,973)</b>	<b>(221)</b>	<b>(69,194)</b>
Net assets as at 31 December 2020	14, 15	326,472	19,952	346,424
<b>Movements during the year</b>				
Actuarial valuation gains/(losses) on employee benefit liabilities	11, 14	7,065		7,065
Transfer to/(from) reserves	15		933	933
Other movements recognized directly in net assets	14	(273)		(273)
<b>Net movements recognized directly in net assets</b>	14, 15	<b>6,792</b>	<b>933</b>	<b>7,725</b>
Credits to Member States	14, 15	(8,767)		(8,767)
Net surplus/(deficit) for the year		21,722		21,722
<b>Total movement during the year</b>		<b>19,747</b>	<b>933</b>	<b>20,680</b>
Net assets as at 31 December 2021		346,219	20,885	367,104

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

**UNIDO****Statement 4: Cash flow statement for the year ended 31 December 2021***(Thousands of euros)*

		<b>31 December 2021</b>	<b>31 December 2020</b>
		<b>(restated)</b>	
	<i>Note</i>	<i>€ '000</i>	<i>€ '000</i>
<b>Cash flows from operating activities</b>			
Surplus/(deficit) for the period		<b>21,722</b>	<b>(56,283)</b>
Unrealized foreign exchange (gains)/losses		(22,548)	34,599
Depreciation and amortization	7, 8	7,764	7,816
Credits to Member States	14	(8,767)	(754)
(Increase)/decrease in provision for contributions	14	-	(1,241)
Valuation gains/(losses) on employee benefit liabilities	14	7,065	(10,702)
(Increase)/decrease in inventories	4	48	(7)
(Increase)/decrease in receivables	3	(34,717)	60,776
(Increase)/decrease in other assets	5	(4,237)	1,745
Increase/(decrease) in advance receipts and deferred income	12	22,052	(4,698)
Increase/(decrease) in accounts payable	10	7,342	(9,328)
Increase/(decrease) in employee benefits	11	(141)	18,039
Increase/(decrease) in other liabilities and provisions	13	10,106	(1,465)
(Gains)/losses on sale of property, plant and equipment	7	12,329	6,059
Investment/interest income (net)	16	1,001	447
Transfers to reserves	14, 15	933	(221)
Other movements		(273)	7
<b>Net cash flows from operating activities</b>		<b>19,679</b>	<b>44,789</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(24,981)	(16,290)
Purchase of intangible assets	8	(282)	(222)
Proceeds from sale of property, plant and equipment	7	21	31
Net cash flow from investments interest		(1,001)	(447)
<b>Net cash flows from investing activities</b>		<b>(26,243)</b>	<b>(16,928)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(6,564)</b>	<b>27,861</b>
Cash and cash equivalents at beginning of the financial period		438,465	445,203
Unrealized foreign-exchange gains/(losses)		22,548	(34,599)
<b>Cash and cash equivalents at the end of the financial period</b>	2	<b>454,449</b>	<b>438,465</b>

*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 2021

(Thousands of euros)

		Original budget	Final budget	Actuals on comparable basis	Balance
		€ '000			
<b>Regular budget</b>	<i>Note</i>				
<b>Income</b>					
Assessed contributions	16	70,258	69,462	69,462	-
Regional programme		1,223	2,291	694	1,597
Miscellaneous income		1,368	1,606	(535)	2,141
<b>Total income</b>		<b>72,849</b>	<b>73,359</b>	<b>69,621</b>	<b>3,738</b>
<b>Cost component</b>					
Staff costs		47,360	49,890	45,520	4,370
Official travel		1,102	2,059	113	1,946
Operating costs		16,100	18,531	15,234	3,297
Information and communication technology		3,587	4,765	3,003	1,762
Regular programme of technical cooperation, and special resources for Africa		4,700	4,700	4,396	304
<b>Total costs</b>		<b>72,849</b>	<b>79,945</b>	<b>68,266</b>	<b>11,679</b>
<b>Balance for the period</b>		<b>-</b>	<b>(6,586)</b>	<b>1,355</b>	<b>(7,941)</b>
		Original budget	Final budget	Actuals on comparable basis	Balance
		€ '000			
<b>Operational budget</b>	<i>Note</i>				
<b>Income</b>					
Support costs income		18,454	20,502	18,149	2,353
Miscellaneous income		158	(1,099)	1,678	(2,777)
<b>Total income</b>		<b>18,612</b>	<b>19,403</b>	<b>19,827</b>	<b>(424)</b>
<b>Cost component</b>					
Staff costs		17,624	19,415	16,914	2,501
Official travel		910	2,380	21	2,359
Operating costs		78	193	124	69
<b>Total costs</b>		<b>18,612</b>	<b>21,988</b>	<b>17,059</b>	<b>4,929</b>
<b>Balance for the period</b>		<b>-</b>	<b>(2,584)</b>	<b>2,768</b>	<b>(5,352)</b>
		Original budget	Final budget	Actuals on comparable basis	Balance
		€ '000			
<b>Total</b>	<i>Note</i>				
<b>Income</b>					
Assessed contributions		70,258	69,462	69,462	-
Support costs income		18,454	20,502	18,149	2,353
Regional programme		1,223	2,291	694	1,597
Miscellaneous income		1,526	507	1,143	(636)
<b>Total income</b>		<b>91,461</b>	<b>92,762</b>	<b>89,448</b>	<b>3,314</b>
<b>Cost component</b>					
Staff costs		64,984	69,305	62,434	6,871
Official travel		2,012	4,439	134	4,305
Operating costs		16,178	18,724	15,358	3,366
Information and communication technology		3,587	4,765	3,003	1,762

		Original budget	Final budget	Actuals on comparable basis	Balance
<b>Total</b>	<i>Note</i>	<b>€ '000</b>			
Regular programme of technical cooperation, and special resources for Africa		4,700	4,700	4,396	304
<b>Total costs</b>	18	<b>91,461</b>	<b>101,933</b>	<b>85,325</b>	<b>16,608</b>
<b>Balance for the period</b>		<b>-</b>	<b>(9,171)</b>	<b>4,123</b>	<b>(13,294)</b>

*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 (2020: 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 48 offices (49 in 2020), 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 2021 and ending on 31 December 2021.

**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 (UNROE) 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 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 Investment revenue 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 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 counterparty 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. Currency risk is mitigated mainly due to the fact, that contracts are primarily concluded and executed in the currencies in which the donors fund the projects.

- 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, donors and other counterparties are generally of high credit standing.
- Counterparty 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. Further, the overall investment portfolio is geographically diversified with no more than three financial investment counterparties per country and no more than 25 per cent of UNIDO total exposure per country.
- Country risk. Project implementation in over 150 countries faces challenges due to potential changes in geopolitical arrangements that need to be considered at project planning stage. At the planning stage, a project risk matrix is drawn up. It considers a list of risks, their nature and extent, as well as mitigation measures.
- Technological risk. Deployment of new technologies affects project activities and impacts the structure of projects and project planning.
- Cybersecurity risk. Due to vulnerability to cyberattacks, UNIDO is continuously strengthening the protection of information systems.

## 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 inventory obsolescence is recorded in the statement of financial performance in the year in which the inventory is determined to be obsolete.

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
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, annual leave in excess of the carryover threshold and current portion of post-employment benefits. 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, the Special Adviser 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 improvements to IPSAS in 2021, consisting of proposals for minor amendments to IPSAS identified by stakeholders. UNIDO will be adopting the improvements, as required, and believes that the adoption will have no impact on the financial statements.

**Note 2. Cash and cash equivalents**

		31 December 2021	31 December 2020
	Note	(thousands of euros)	
<b>Cash and cash equivalents</b>			
Cash in the bank and on hand		96,682	90,903
Short-term deposits	2.4	354,159	344,483
Cash and cash equivalents held in field offices	2.5	3,608	3,079
<b>Total cash and cash equivalents</b>	<b>2.1</b>	<b>454,449</b>	<b>438,465</b>

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 €365,796 (2020: €359,155), for Buildings Management Service activities €44,293 (2020: €37,147) and for the Major Repair and Replacement Fund €1,021 (2020: €1,038).

2.2 Cash and cash equivalents include cash and short-term deposits equivalent to €230,852 (2020: €243,941) held in currencies other than the euro. The term deposits can be withdrawn before maturity.

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 €2,740 (2020: €2,241) 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 0.22 per cent for holdings in euros and United States dollars respectively (2020: 0.03 per cent and 1.00 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 99 per cent of cash and cash equivalents are held in rated financial institutions.

**Note 3. Accounts receivable**

	31 December 2021	31 December 2020
	(thousands of euros)	
<b>Current</b>		
<b>Receivable from non-exchange transactions</b>		
Voluntary contributions receivable	186,903	169,229
Due from Member States: assessed contributions	94,693	91,394
VAT and other taxes recoverable	2,325	2,812
Due from Member States: other	25	28
<b>Total accounts receivable before allowance</b>	<b>283,946</b>	<b>263,463</b>
Allowance for doubtful accounts	(85,008)	(82,902)
<b>Net accounts receivable from non-exchange transactions</b>	<b>198,938</b>	<b>180,561</b>
<b>Receivable from exchange transactions</b>		
Receivables from United Nations organizations	1,114	2,533
Receivables: other	1,718	1,717

	31 December 2021	31 December 2020
	(thousands of euros)	
Allowance for doubtful accounts	(677)	(688)
<b>Net accounts receivable from exchange transactions</b>	<b>2,155</b>	<b>3,562</b>
<b>Non-current</b>		
<b>Receivable from non-exchange transactions</b>		
Voluntary contributions receivable	48,051	30,184
Due from Member States: assessed contributions	322	1,111
Allowance for doubtful accounts: assessed contributions	(322)	(991)
<b>Total receivable from non-exchange transactions</b>	<b>48,051</b>	<b>30,304</b>

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):

	2021	2020
<i>Length of time contributions were outstanding</i>	<i>(percentage)</i>	
7 years and more	100	100
5–6 years	80	80
3–4 years	60	60
1–2 years	30	30

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

	31 December 2021	31 December 2020
	(thousands of euros)	
<b>Allowance for bad and doubtful accounts at the beginning of the year</b>	<b>82,022</b>	<b>80,781</b>
Charge of allowance for the year	1,381	1,241
<b>Allowance for bad and doubtful accounts at the end of the year</b>	<b>83,403</b>	<b>82,022</b>

3.3 Total allowances for bad and doubtful accounts of €86,006 (2020: €84,581) consist of €83,403 (2020: €82,022) against assessed contributions receivable and €2,603 against other receivables and tax claims (2020: €2,559). No allowance is made in respect of voluntary contributions receivable, as these are within the due dates.

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) contained in document PBC.38/CRP.2 provides details of the status of assessed contributions, and the following table illustrates ageing of contributions receivable:

	31 December 2021		31 December 2020	
	(thousands of euros)	(percentage)	(thousands of euros)	(percentage)
<b>Age</b>				
1–2 years	14,039	14.8	13,215	14.3
3–4 years	3,391	3.6	2,361	2.6
5–6 years	2,143	2.3	1,440	1.6
7 years and more	75,442	79.3	75,489	81.5
<b>Total contributions receivable before allowance</b>	<b>95,015</b>	<b>100.0</b>	<b>92,505</b>	<b>100.0</b>

**Note 4. Inventories**

	31 December 2021	31 December 2020
	(thousands of euros)	
<b>Opening inventory</b>	800	793
Purchased during the year	375	287
<b>Total inventory available</b>	<b>1,175</b>	<b>1,080</b>
Less: consumption	(308)	(280)
Less: write-up/(down)	(115)	-
<b>Closing inventory</b>	<b>752</b>	<b>800</b>

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**

		31 December 2021	31 December 2020 (restated)
	Note	(thousands of euros)	
Advances to vendors	5.1	20,126	15,545
Advances to staff	5.2	2,413	2,118
E-IOV items	5.3	1,386	1,385
Other		178	168
<b>Total other assets</b>		<b>24,103</b>	<b>19,216</b>

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:

2021	14.528 per cent
2020	14.516 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.

	31 December 2021	31 December 2020
	(thousands of euros)	
Income	15,093	15,201
Expenses	15,093	15,201
Assets, non-current	216,957	224,095
Liabilities, non-current	216,957	224,095
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 the Major Repair and Replacement Fund, the balances of the contributions of the Vienna-based organizations' net 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.

	31 December 2021	31 December 2020
	(thousands of euros)	
Income	5,140	4,951
Expenses	6,358	6,499

	31 December 2021	31 December 2020
	(thousands of euros)	
Assets, current	14,749	15,344
Liabilities, current	2,867	2,244
Net assets	11,882	13,100

## 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. Assets and liabilities are fully included in UNIDO’s financial statements.

	31 December 2021	31 December 2020
	(thousands of euros)	
Income	25,207	23,983
Expenses	24,804	25,057
Assets, current	47,547	42,246
Assets, non-current	1,270	1,637
Liabilities, current	22,037	18,835
Liabilities, non-current	28,989	30,576
Net assets	(2,209)	(5,528)

## 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 2021 constituted €2,219 (2020: €2,080).

### 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 the IAEA and 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 the 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 €2,162 and €248 (2019: €2,061 and €242), respectively.

## Note 7. Property, plant and equipment

	<i>TC Construction in progress</i>	<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>							
<b>Cost</b>							
At 31 December 2019 (restated)	4,506	70,924	2,334	16,203	3,879	34,251	<b>132,097</b>
Additions	5,303	1,009	1,341	1,648	1,484	8,813	<b>19,598</b>
Impact of change in VIC cost-sharing ratio	-	1,995	-	-	-	-	<b>1,995</b>
Disposals/transfers	(4,506)	-	(315)	(1,923)	(1,102)	(13,008)	<b>(20,854)</b>
<b>At 31 December 2020 (restated)</b>	<b>5,303</b>	<b>73,928</b>	<b>3,360</b>	<b>15,928</b>	<b>4,261</b>	<b>30,056</b>	<b>132,836</b>
<b>Accumulated depreciation</b>							
At 31 December 2019	-	38,326	1,238	13,193	2,157	9,151	<b>64,065</b>
Depreciation charge during the year	-	1,953	327	1,197	439	3,720	<b>7,636</b>
Impact of change in VIC cost-sharing ratio	-	1,118	-	-	-	-	<b>1,118</b>
Disposals/transfers	-	-	(94)	(1,092)	(342)	(4,710)	<b>(6,238)</b>
<b>At 31 December 2020</b>	<b>-</b>	<b>41,397</b>	<b>1,471</b>	<b>13,298</b>	<b>2,254</b>	<b>8,161</b>	<b>66,581</b>
<b>Net book value</b>							
<b>At 31 December 2019 (restated)</b>	<b>4,506</b>	<b>32,598</b>	<b>1,096</b>	<b>3,010</b>	<b>1,722</b>	<b>25,100</b>	<b>68,032</b>
<b>At 31 December 2020 (restated)</b>	<b>5,303</b>	<b>32,531</b>	<b>1,889</b>	<b>2,630</b>	<b>2,007</b>	<b>21,895</b>	<b>66,255</b>

	<i>TC Construction in progress</i>	<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>							
<b>Cost</b>							
At 31 December 2020	5,303	73,928	3,360	15,928	4,261	30,056	<b>132,836</b>
Additions	10,850	1,154	505	1,397	811	10,263	<b>24,980</b>
Impact of change in VIC cost-sharing ratio	-	61	-	-	-	-	<b>61</b>
Disposals/transfers	(5,303)	(268)	(1,324)	(1,400)	(600)	(7,271)	<b>(16,166)</b>
<b>At 31 December 2021</b>	<b>10,850</b>	<b>74,875</b>	<b>2,541</b>	<b>15,925</b>	<b>4,472</b>	<b>33,048</b>	<b>141,711</b>
<b>Accumulated depreciation</b>							
At 31 December 2020	-	41,397	1,471	13,298	2,254	8,161	<b>66,581</b>
Depreciation charge during the year	-	1,923	342	1,186	469	3,666	<b>7,586</b>
Impact of change in VIC cost-sharing ratio	-	34	-	-	-	-	<b>34</b>
Disposals/transfers	-	-	(434)	(830)	(224)	(2,349)	<b>(3,837)</b>
<b>At 31 December 2021</b>	<b>-</b>	<b>43,354</b>	<b>1,379</b>	<b>13,654</b>	<b>2,499</b>	<b>9,478</b>	<b>70,364</b>
<b>Net book value</b>							
<b>At 31 December 2020</b>	<b>5,303</b>	<b>32,531</b>	<b>1,889</b>	<b>2,630</b>	<b>2,007</b>	<b>21,895</b>	<b>66,255</b>

At 31 December 2021	10,850	31,521	1,162	2,271	1,973	23,570	71,347
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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 2021, 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 €5,805 (2020: €6,198) at the period end.

7.4 The asset class Buildings includes assets under construction of €384 (2020: €267), not yet put into operation.

7.5 The TC Construction in progress contains assets acquired for technical cooperation projects, not yet commissioned into operation.

## Note 8. Intangible assets

	Software acquired externally	Internally developed software	Total
(thousands of euros)			
<b>Costs</b>			
At 31 December 2019	1,831	5,449	7,280
Additions	224	-	224
Disposals/transfers	(266)	(45)	(311)
<b>At 31 December 2020</b>	<b>1,789</b>	<b>5,404</b>	<b>7,193</b>
<b>Accumulated amortization</b>			
At 31 December 2019	1,150	5,361	6,511
Amortization charge during the year	175	5	180
Disposals/transfers	(144)	-	(144)
<b>At 31 December 2020</b>	<b>1,181</b>	<b>5,366</b>	<b>6,547</b>
<b>Net book value</b>			
<b>At 31 December 2019</b>	<b>681</b>	<b>88</b>	<b>769</b>
<b>At 31 December 2020</b>	<b>608</b>	<b>38</b>	<b>646</b>
	Software acquired externally	Internally developed software	Total
(thousands of euros)			
<b>Costs</b>			
At 31 December 2020	1,789	5,404	7,193
Additions	274	9	283
Disposals/transfers	(195)	(66)	(261)
<b>At 31 December 2021</b>	<b>1,868</b>	<b>5,347</b>	<b>7,215</b>
<b>Accumulated amortization</b>			
At 31 December 2020	1,181	5,366	6,547
Amortization charge during the year	176	2	178
Disposals/transfers	(183)	(30)	(213)
<b>At 31 December 2021</b>	<b>1,174</b>	<b>5,338</b>	<b>6,512</b>
<b>Net book value</b>			
<b>At 31 December 2020</b>	<b>608</b>	<b>38</b>	<b>646</b>
<b>At 31 December 2021</b>	<b>694</b>	<b>9</b>	<b>703</b>

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 2021, the review indicated no impairments.

## Note 9. Other non-current assets

Note	31 December 2021	31 December 2020 (restated)
	(thousands of euros)	
Advances for property, plant and equipment	2,892	3,453
Initial advance in Commissary	809	809
Advance to the Major Repair and Replacement fund	863	951
Other non-current assets	-	1
<b>Total, non-current assets</b>	<b>4,564</b>	<b>5,214</b>

## Note 10. Accounts payable

		31 December 2021	31 December 2020
	Note	(thousands of euros)	
<b>Payables from exchange transactions</b>			
Due to Vienna-based organizations	10.1	9,105	9,105
Payables to vendors	10.2	4,208	3,519
<b>Total payables from exchange transactions</b>		<b>13,313</b>	<b>12,624</b>
<b>Payables from non-exchange transactions</b>			
Due to Member States	10.3	17,109	9,310
Payables to donors	10.4	12,508	13,654
<b>Total payables from non-exchange transactions</b>		<b>29,617</b>	<b>22,964</b>
<b>Total accounts payable</b>		<b>42,930</b>	<b>35,588</b>

10.1 Amounts due to Vienna-based organizations represent the refund of the excess funds over the established ceiling of the Buildings Management Services special account.

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

10.3 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.

10.4 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.

## Note 11. Employee benefits

		31 December 2021			
		Actuarial valuation	UNIDO valuation	Total	31 December 2020 (restated)
	Note	(thousands of euros)			
Short-term employee benefits	11.2		11,184	11,184	9,728
Post-employment benefits	11.3	237,389		237,389	238,913

		31 December 2021			31 December 2020 (restated)
		Actuarial valuation	UNIDO valuation	Total	
	Note	(thousands of euros)			
Other long-term employee benefits	11.7	6,428		6,428	6,501
<b>Total employee benefit liabilities</b>		<b>243,817</b>	<b>11,184</b>	<b>255,001</b>	<b>255,142</b>

	31 December 2021	31 December 2020
	(thousands of euros)	
<b>Composition:</b>		
Current	11,184	9,728
Non-current	243,817	245,414
<b>Total employee benefit liabilities</b>	<b>255,001</b>	<b>255,142</b>

### 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.

### Short-term employee benefits

11.2 Short-term employee benefits relate to salaries, home leave travel, education grants, annual leave in excess of the carryover threshold, current portion of post-employment benefits 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 normally payable when staff separate from service, however it can be used up at any time, upon request, subject to supervisor's approval on exigencies of 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 2021. 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 2021:

- *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.* 1.21 per cent (2020: 0.65 per cent) for after-service health insurance and 0.67 per cent (2020: 0.22 per cent) for repatriation, annual leave and end-of-service allowance.
- *Medical cost trend rates.* 3.75 per cent for Euro, 3.95 percent for United States Dollar (2020: 3.25 per cent (Euro) 3.65 per cent (United States Dollar)).
- *Rate of salary increase.* 2.00 per cent (2020: 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 (2020: 0.00 per cent) change in future years.
- *Annual leave.* It is assumed that all staff are eligible for these benefits and will receive them upon separation from service. Accumulation rates of leave balances vary with years of service.

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

	1 percentage point increase	1 percentage point decrease
	(thousands of euros)	
Effect on year-end accumulated after-service health benefits obligation	57,469	(42,904)
Effect on combined service and interest cost	3,942	(2,779)

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:

	1 percentage point increase	1 percentage point decrease
	(thousands of euros)	
Effect on year-end accumulated after-service health benefits obligation	(43,465)	59,837
Effect on combined service and interest cost	(987)	1,194

### Reconciliation of defined benefit obligation

	After-service health insurance	Repatriation benefits	Annual leave	End-of-service allowance	Total
	(thousands of euros)				
<b>Defined benefit obligation at 31 December 2020</b>	<b>223,049</b>	<b>10,242</b>	<b>7,068</b>	<b>11,179</b>	<b>251,538</b>
Service costs	8,578	392	645	636	<b>10,251</b>
Interest costs	1,463	21	15	24	<b>1,523</b>
Actual gross benefit payments	(3,373)	(861)	(666)	(867)	<b>(5,767)</b>

	<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>				
Actuarial (gains)/losses arising from third party funded activities	(139)	(23)	(4)	-	<b>(166)</b>
Actuarial (gains)/losses arising from changes in demographic assumptions	832	35	7	57	<b>931</b>
Actuarial (gains)/losses arising from experience adjustments	(17,873)	885	(4)	(336)	<b>(17,328)</b>
Actuarial (gains)/losses arising from changes in financial assumptions	(3,321)	(383)	(288)	(480)	<b>(4,472)</b>
The effect (gain)/losses of changes in foreign exchange rates	13,031	625	314	-	<b>13,970</b>
<b>Defined benefit obligation at 31 December 2021</b>	<b>222,247</b>	<b>10,933</b>	<b>7,087</b>	<b>10,213</b>	<b>250,480</b>

11.13 It is expected that the contribution to the after-service health insurance plan will remain at the same level in 2022.

11.14 The defined benefit obligations are unfunded and are managed on a pay-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 2021, UNIDO's contribution payments to the UNJSPF amounted to €11,161 (2020: €11,218). Expected contributions due in 2022 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, and the valuation as of 31 December 2021 currently being performed. 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](http://www.unjspf.org).

## Note 12. Advance receipts and deferred income

		31 December 2021	31 December 2020
	Note	(thousands of euros)	
<b>Advances from non-exchange transactions</b>			
Performance obligation for voluntary contributions agreements	12.1	44,315	29,777
Voluntary contributions in advance	12.2	30,467	25,653
Major Repair and Replacement Fund deferral	12.3	862	951
Assessed contributions in advance		334	440
<b>Advances from non-exchange transactions</b>		<b>75,978</b>	<b>56,821</b>
<b>Advances from exchange transactions</b>			
Advances to BMS from Vienna-based organizations		6,044	3,149
<b>Total advance receipts and deferred income</b>		<b>82,022</b>	<b>59,970</b>

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**

		31 December 2021	31 December 2020 (restated)
	Note	(thousands of euros)	
<b>Other current liabilities</b>			
Accruals for goods/services received not invoiced		25,572	14,714
Other liabilities	13.1	2,575	2,017
<b>Total other current liabilities</b>		<b>28,147</b>	<b>16,731</b>
<b>Other non-current liabilities</b>			
Deferred income – Vienna International Centre performance obligation	13.2	29,533	30,844
Long-term guarantees – bank/rent deposit		324	324
<b>Total other non-current liabilities</b>		<b>29,857</b>	<b>31,168</b>

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:

	2021	2020
	(thousands of euros)	
VIC net book value at the beginning of the period	32,530	32,592
Provision for undepreciated VIC improvements	(1,686)	(1,357)
Additions to the VIC buildings	886	1,009
VIC buildings depreciation	(1,923)	(1,953)
Change in cost-sharing ratio	27	877
Change in book value of self-financed leasehold improvements	(301)	(324)
<b>VIC performance obligation at the end of the period</b>	<b>29,533</b>	<b>30,844</b>

**Note 14. Fund balances**

	Regular budget funds					
	General fund	Regular programme of technical cooperation	Working Capital Fund	Technical cooperation funds	Other funds	Total
	(thousands of euros)					
<b>Balance as at 31 December 2019</b>	<b>(171,024)</b>	<b>4,997</b>	<b>7,423</b>	<b>561,881</b>	<b>(7,832)</b>	<b>395,445</b>
Net surplus/(deficit) for the year	(2,037)	1,376	-	(55,020)	(602)	(56,283)
<b>Subtotal</b>	<b>(173,061)</b>	<b>6,373</b>	<b>7,423</b>	<b>506,861</b>	<b>(8,434)</b>	<b>339,162</b>
<b>Movements during year</b>						
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)
Consolidation adjustments	7	-	-	-	-	7
<b>Total movements during year</b>	<b>(6,622)</b>	<b>-</b>	<b>-</b>	<b>(484)</b>	<b>(5,584)</b>	<b>(12,690)</b>
<b>Balance as at 31 December 2020</b>	<b>(179,683)</b>	<b>6,373</b>	<b>7,423</b>	<b>506,377</b>	<b>(14,018)</b>	<b>326,472</b>
Net surplus/(deficit) for the year	(283)	738	-	20,321	946	21,722
<b>Subtotal</b>	<b>(179,966)</b>	<b>7,111</b>	<b>7,423</b>	<b>526,698</b>	<b>(13,072)</b>	<b>348,194</b>
<b>Movements during year</b>						
Credits to Member States	(8,767)	-	-	-	-	(8,767)

	Regular budget funds					
	General fund	Regular programme of technical cooperation	Working Capital Fund	Technical cooperation funds	Other funds	Total
	(thousands of euros)					
Transfer (to)/from provision for delayed contribution	-	-	-	-	-	-
Actuarial gains/(losses)	2,704	-	-	(1,112)	5,473	7,065
Other adjustments	(273)	-	-	-	-	(273)
Total movements during year	(6,336)	-	-	(1,112)	5,473	(1,975)
Balance as at 31 December 2021	(186,302)	7,111	7,423	525,586	(7,599)	346,219

### 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 €250,480 (2020: €251,538).

14.2 Credits to Member States represent late payments for prior bienniums and cash surplus for the biennium 2018–2019.

### Regular programme of technical cooperation

14.3 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

14.4 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 2021, 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

14.5 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

		<i>1 January 2021</i>	<i>Movements during the year</i>	<i>Net surplus/ (deficit) for the year</i>	<i>31 December 2021</i>
	<i>Note</i>	<i>(thousands of euros)</i>			
Computer Model for Feasibility Analysis and Reporting fund	14.5	206	-	33	239
Operational budget	14.6	(12,255)	2,556	738	(8,961)
Fund for the Programme for Change and Organizational Renewal	14.7	11	-	(11)	-
Special Account of Voluntary Contributions for Core Activities	14.8	270	-	17	287
Major Capital Investment Fund	14.9	2,428	-	(261)	2,167
Regular budget supplementary appropriation: Vienna International Centre security	14.10	575	-	-	575
Sales publication revolving fund	14.11	275	-	28	303
Buildings Management Services	14.12	(5,528)	2,917	402	(2,209)
<b>Total</b>		<b>(14,018)</b>	<b>5,473</b>	<b>946</b>	<b>(7,599)</b>

14.6 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.

14.7 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 €33,487 (2020: €34,222).

14.8 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.

14.9 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.

14.10 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.

14.11 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.

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

14.13 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 6.8–6.9).

## Note 15. Reserves

		<i>1 January 2021</i>	<i>Movement during the year</i>	<i>31 December 2021</i>
	<i>Note</i>	<i>(thousands of euros)</i>		
Project personnel separation reserve	15.1	2,125	126	2,251
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	5,193	489	5,682
Reserve for exchange rate fluctuations	15.6	3,611	318	3,929
<b>Total</b>		<b>19,952</b>	<b>933</b>	<b>20,885</b>

### 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 at 31 December 2021 was €2,040 (2020: €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 €1,889 (2020: €1,651).

## Note 16. Revenue

		31 December 2021	31 December 2020 (restated)
	Note	(thousands of euros)	
<b>Assessed contributions</b>	<b>16.1</b>	<b>69,462</b>	<b>69,462</b>
<b>Voluntary contributions</b>			
For technical cooperation		165,604	119,543
For support to regular activities		714	237
<b>Subtotal, voluntary contributions</b>	<b>16.2</b>	<b>166,318</b>	<b>119,780</b>
<b>Investment revenue</b>	<b>16.3</b>	<b>674</b>	<b>578</b>
<b>Revenue producing activities</b>			
Contribution to the Buildings Management Services	16.4	20,514	19,916
Revenue from ad-hoc VIC projects		949	967

		31 December 2021	31 December 2020 (restated)
	Note	(thousands of euros)	
Sales publications		67	83
Computer Model for Feasibility Analysis and Reporting		84	86
Other sales		143	553
<b>Subtotal, revenue producing activities</b>	<b>16.5</b>	<b>21,757</b>	<b>21,605</b>
<b>Miscellaneous income</b>		-	-
Transfer to reserve for exchange fluctuation	<b>16.6</b>	(80)	-
Release of performance obligation for the Vienna International Centre	<b>16.7</b>	1,923	1,950
Contribution in kind – Vienna International Centre land	<b>16.8</b>	269	253
Other miscellaneous income	<b>16.9</b>	566	944
<b>Subtotal, miscellaneous income</b>		<b>2,678</b>	<b>3,147</b>
<b>TOTAL REVENUE</b>		<b>260,889</b>	<b>214,572</b>

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 2021. 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.

### Contributions in kind for projects and field office operations

16.10 Contributions of services in kind estimated at €3,887 (2020: €6,880) 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 2021	31 December 2020
	(thousands of euros)	
<b>Contributions of services in kind for the use of:</b>		
Personnel services	1,275	3,120
Office space	1,420	1,458
Machinery, tools	310	957
Communications and information technology equipment	188	451
Other	693	894
<b>Total</b>	<b>3,886</b>	<b>6,880</b>

## Note 17. Expenses

		31 December 2021	31 December 2020 (restated)
	Note	(thousands of euros)	
Staff salaries		51,248	51,231
Staff entitlements and allowances		32,398	31,219
Temporary assistance		1,046	1,140
Subtotal, staff costs		84,692	83,590
International consultants		22,760	20,800
National experts		17,755	14,993
Administrative support and other consultancies		3,839	3,974
Subtotal, project personnel and consultancies		44,354	39,767
<b>Subtotal, personnel costs and benefits</b>	<b>17.1</b>	<b>129,046</b>	<b>123,357</b>
Regular travel		190	120
Project travel		1,703	1,867
Rental, utilities and maintenance		17,799	18,445
Information technology and communications automation		2,880	2,826
Supplies and consumables		2,312	2,528
Other operating costs		7,264	6,342
<b>Subtotal, operating costs</b>	<b>17.2</b>	<b>32,148</b>	<b>32,128</b>
<b>Contractual services</b>	<b>17.3</b>	<b>82,133</b>	<b>53,569</b>
<b>Equipment expensed</b>	<b>17.4</b>	<b>10,982</b>	<b>15,519</b>
<b>Depreciation and amortization</b>	<b>7.8</b>	<b>7,764</b>	<b>7,816</b>
<b>Other expenses</b>	<b>17.5</b>	<b>2,009</b>	<b>487</b>
<b>TOTAL EXPENDITURE</b>		<b>264,082</b>	<b>232,876</b>
<b>Currency translation gains/(losses)</b>	<b>17.6</b>	<b>24,915</b>	<b>(37,979)</b>

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 €947 (2020: €929).

17.5. Other expenses primarily consist of allowance for doubtful accounts.

17.6 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 an increase in the year-end dollar/euro exchange rate from 0.815 in 2020 to 0.881 in 2021. In 2021, unrealized and realized currency translation differences amounted to €22,548 and €2,367 respectively.

## 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 2021 is presented below:

	<i>Operating</i>	<i>Investing</i>	<i>Total</i>
	<i>(thousands of euros)</i>		
<b>Surplus of income (statement 5)</b>	13,294	-	<b>13,294</b>
Basis differences	(1,634)	589	<b>(1,045)</b>
Presentation differences	(8,776)	-	<b>(8,776)</b>
Entity differences	16,795	(26,832)	<b>(10,037)</b>
<b>Actual amount in the statement of cash flow (statement 4)</b>	<b>19,679</b>	<b>(26,243)</b>	<b>(6,564)</b>

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 2021 budget, as well as between the final budget and the actual amounts are presented below. As per the established procedure, the final 2021 budget embraced the carry forward of balances and unliquidated obligations from 2020 in the amount of 9.7 per cent of 2021 approved appropriations. Similar to 2020, the usual expenditure pattern of certain expenses was impacted by the COVID-19 pandemic and several related lockdown periods in 2021, which resulted in savings and underutilized resources.

### Staff costs

18.9 Regular budget staff costs for Professional and General Service posts were utilized at 96.5 per cent, which exceeds the consumption for the prior year. Due to the uncertainty in the payment of assessed contributions by Member States, the vacancy factor in 2021, similar to 2020, was maintained at a higher level than budgeted. Compared to 2020, the regular budget vacancy rate in 2021 increased to 17.5 per cent for Professional and higher categories (15.5 per cent in 2020) and 5.9 per cent for General Service (5.1 per cent in 2020), predominantly due to a majority of staff separations from service taking place during the second half of 2021.

### Official travel

18.10 The budget for official travel, similar to 2020, was underutilized by €1.0 million. This was due to continued targeted efforts to use information and communications technology instead of physical travel to conduct business because of the COVID-19 pandemic.

### Operating costs

18.11 The operating costs were underutilized by €0.9 million due to uncertainty in the payment of assessed contributions. In addition, savings were pursued through conducting sessions of the policymaking organs and

related Member State engagements in a virtual or hybrid format. It should however be noted that certain services, particularly in the field, have been postponed until 2022 due to the COVID-19 pandemic.

### Information and communications technology

18.12 The underutilization of €0.6 million in resources for information and communications technology is mainly attributable to a concerted effort to seek 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 2021

	<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>				
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	12,703	365,337	76,409	-	<b>454,449</b>
Accounts receivable (non-exchange transactions)	11,990	186,948	-	-	<b>198,938</b>
Receivables from exchange transactions	-	274	1,881	-	<b>2,155</b>
Inventories	-	-	752	-	<b>752</b>
Other current assets	5,312	21,815	652	(3,676)	<b>24,103</b>
<b>Subtotal, current assets</b>	<b>30,005</b>	<b>574,374</b>	<b>79,694</b>	<b>(3,676)</b>	<b>680,397</b>
<b>Non-current assets</b>					
Receivables	-	48,051	-	-	<b>48,051</b>
Property, plant and equipment	32,830	37,008	1,509	-	<b>71,347</b>
Intangible assets	343	80	280	-	<b>703</b>
Other non-current assets	1,843	2,721	-	-	<b>4,564</b>
<b>Subtotal, non-current assets</b>	<b>35,016</b>	<b>87,860</b>	<b>1,789</b>	<b>-</b>	<b>124,665</b>
<b>TOTAL ASSETS</b>	<b>65,021</b>	<b>662,234</b>	<b>81,483</b>	<b>(3,676)</b>	<b>805,062</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable (exchange transactions)	1,940	1,833	13,216	(3,676)	<b>13,313</b>
Employee benefits	10,739	314	131	-	<b>11,184</b>
Transfers payable (non-exchange transactions)	17,109	12,498	10	-	<b>29,617</b>
Advance receipts	333	74,782	6,907	-	<b>82,022</b>
Other current liabilities	3,234	21,650	3,263	-	<b>28,147</b>
<b>Subtotal, current liabilities</b>	<b>33,355</b>	<b>111,077</b>	<b>23,527</b>	<b>(3,676)</b>	<b>164,283</b>
<b>Non-current liabilities</b>					
Employee benefits	173,339	8,001	62,477	-	<b>243,817</b>
Other non-current liabilities	29,534	324	-	-	<b>29,858</b>
<b>Subtotal, non-current liabilities</b>	<b>202,873</b>	<b>8,325</b>	<b>62,477</b>	<b>-</b>	<b>273,675</b>
<b>TOTAL LIABILITIES</b>	<b>236,228</b>	<b>119,402</b>	<b>86,004</b>	<b>(3,676)</b>	<b>437,958</b>
<b>NET ASSETS</b>					
Accumulated surpluses/(deficits): fund balances	(178,594)	511,597	(8,506)	-	<b>324,497</b>

	<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>				
Current period surplus/(deficit)	(283)	21,059	946	-	<b>21,722</b>
Reserves	7,670	10,176	3,039	-	<b>20,885</b>
<b>TOTAL NET ASSETS</b>	<b>(171,207)</b>	<b>542,832</b>	<b>(4,521)</b>	-	<b>367,104</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>65,021</b>	<b>662,234</b>	<b>81,483</b>	<b>(3,676)</b>	<b>805,062</b>

## B: Statement of financial performance by segment for the year ended 31 December 2021

	<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>				
<b>INCOME/REVENUE</b>					
Assessed contributions	69,462	-	-	-	<b>69,462</b>
Voluntary contributions	476	165,724	118	-	<b>166,318</b>
Investment revenue	11	646	17	-	<b>674</b>
Revenue producing activities	200	581	40,662	(19,686)	<b>21,757</b>
Other	1,916	4,664	4,473	(8,375)	<b>2,678</b>
<b>TOTAL REVENUE</b>	<b>72,065</b>	<b>171,615</b>	<b>45,270</b>	<b>(28,061)</b>	<b>260,889</b>
<b>EXPENDITURE</b>					
Personnel costs and benefits	48,096	52,439	28,511	-	<b>129,046</b>
Operational costs	13,433	8,186	14,203	(3,674)	<b>32,148</b>
Contractual services	2,186	79,831	116	-	<b>82,133</b>
Technical cooperation equipment expensed	440	10,012	530	-	<b>10,982</b>
Depreciation and amortization	2,531	4,558	675	-	<b>7,764</b>
Other expenses	6,122	20,301	(27)	(24,387)	<b>2,009</b>
<b>TOTAL EXPENDITURE</b>	<b>72,808</b>	<b>175,327</b>	<b>44,008</b>	<b>(28,061)</b>	<b>264,082</b>
Currency translation (losses)/gains	460	24,771	(316)	-	<b>24,915</b>
<b>(DEFICIT)/SURPLUS FOR PERIOD</b>	<b>(283)</b>	<b>21,059</b>	<b>946</b>	-	<b>21,722</b>

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 2021, activities created inter-segment balances in the amount of €4,210, €490, €19,686 and €3,675 (2020: €4,115, €510, €19,534 and €3,584) 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 €2,056 (2020: €1,948). 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 2021	465	1	-	466
31 December 2020	313	5	-	318

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 2021</i>	<i>31 December 2020</i>
	<i>(thousands of euros)</i>	
Regular budget	4,122	1,243
Trust fund	50,464	46,961
Montreal Protocol on Substances that Deplete the Ozone Layer	35,667	47,505
Global Environment Facility	122,543	110,399
Industrial Development Fund	12,496	9,302
Inter-organization arrangements	761	781
Regular programme for technical cooperation	1,574	1,251
Special services and other	163	122
<b>Total commitments</b>	<b>227,790</b>	<b>217,564</b>

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 €606 (2020: €44).

20.7 Contingent liabilities on pending cases under Appendix D of the Staff Rules for possible retroactive payment amounted to €0 (2020: €0). Contingent liabilities for other claims amounted to €428 (2020: €308).

20.8 Due to the COVID-19 pandemic, UNIDO incurred €184 (2020: €255) in extra costs mainly for personal protective equipment, IT assets and changes for remote working arrangements. In spite of the complex situation, UNIDO did not experience a direct financial impact on 2021 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 cannot be reliably estimated.

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

21.1 UNIDO made ex-gratia and special claims payments during the year of €0 (2020: €7).

21.2 The value of property, plant and equipment written off during the year due to loss/theft amounts to €4 (2020: €9).

21.3 During 2021 UNIDO incurred a cash loss of €6 (2020: €0).

**Note 22. Related party and other executive management disclosure****Key management personnel**

	<i>No. of individuals</i>	<i>Aggregate remuneration</i>	<i>Other compensations</i>	<i>Total remuneration 2021</i>	<i>Outstanding advances against entitlements 31 December 2021</i>
		<i>(thousands of euros)</i>			
Director General	1	554	106	660	-
Deputy to the Director General	1	211	-	211	-
Special Advisor to the Director General	1	229	-	229	-
Managing Directors	4	910	-	910	46

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 from service 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 €46 as at 31 December 2021 (2020: €16).

**Note 23. Opening balances adjustments**

23.1 Opening balances were restated to include adjustments which pertain to the change in recognition of advances for PPE as non-current assets and consequent recognition of TC construction in progress, previously reported as short-term pre-financing to the vendors, which better reflects its nature.

	<i>31 December 2021</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
<i>Impact on the Statement of Financial Position</i>	<i>(thousands of euros)</i>		
<b>Assets</b>			
Other current assets	(9,620)	(7,739)	(7,734)
Property, plant and equipment	10,851	5,303	4,506
Other non-current assets	2,892	3,453	4,315
<b>Liabilities</b>			
Other current liabilities	4,123	1,017	1,087

23.2 Opening balances were restated to offset exchange rate differences recognized in revenue against the currency translation differences and separate recognition of income and expenses for ad hoc activities of the Buildings Management Services.

	31 December 2021	31 December 2020	31 December 2019
<i>Impact on the Statement of Financial Performance</i>	<i>(thousands of euros)</i>		
<b>Revenue</b>			
Voluntary contributions	3,014	(3,872)	859
Revenue producing activities	949	967	911
<b>Expenses</b>			
Operational costs	949	967	911
Currency translation gains/(losses)	(3,014)	3,872	(859)

23.3 To harmonize with the United Nations classification of post-employment benefits that meets the short-term classification as per IPSAS 1, the opening balances were also restated to reflect payments expected to be settled within 12 months after the reporting date, as current liabilities.

	31 December 2021	31 December 2020	31 December 2019
<i>Impact on the Statement of Financial Position</i>	<i>(thousands of euros)</i>		
<b>Liabilities</b>			
Employee benefits, current	6,663	6,124	6,277
Employee benefits, non-current	(6,663)	(6,124)	(6,277)

## Note 24. Events after reporting date

24.1 The reporting date of UNIDO is 31 December 2021. 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.