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Report of the External Auditor for 2022

Report of the External Auditor on the accounts of the United Nations Industrial Development Organization for the financial year 1 January to 31 December 2022

Contents

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Acronyms and abbreviation

AC Assessed contributions
ASHI After-service health insurance
BPC Business Procedures Committee
CHM Change Management
CO2 Carbon dioxide
COR Directorate of Corporate Services and Operations
COR/BMS Facilities Management Services (former Building management services)
COR/DIG Information Technology and Digitalization Services
COR/EAU Ethics and Accountability Unit
COR/FIN Financial Services
COR/HRS Human Resources Services
COR/LED Learning and Development Services
COR/PRO Procurement Services
COVID-19 Corona Virus Disease 2019
CRR Consolidated Risk Register
DG Director General
DSC Direct Service Costs
EA External Auditor
EIO Office of Evaluation and Internal Oversight
ERM Enterprise Risk Management
ESG Environmental, Social and Governance
FCR Full cost recovery system
FDDI Financial Disclosure and Declaration of Interest
FO Field Offices
FOREX Foreign exchange differences
FRR Financial Regulations and Rules of UNIDO
FS Financial Statements
FY Fiscal Year
GC General Conference
GEF Global Environment Facility
GLO Directorate of Global Partnerships and External Relations
GLO/FLS Division of Field and Liaison Strategy
GLO/RFO Division of Regional Bureaus and Field Offices
HCFC Hydrochlorofluorocarbon
HLCM High-Level Committee on Management
HQ Headquarters
HR Human Resources
HRM Department of Human Resources Management (before 2022 restructuring)
ICSC International Civil Service Commission
IDB Industrial development board
IET Directorate of SDG Innovation and Economic Transformation
IET/IFI Division of Innovative Finance and International Financial Institutions
IET/PPP Division of Public Private Partnerships
IET/QUA Division of Quality Impact and Accountability
IPSAS International Public Sector Accounting Standards
IRPF Integrated Results and Performance Framework
IS Information security
ISA International Standards on Auditing
ISA holder Person performing services under an Individual Service Agreement (ISA)
ISMS Information Security Management System
ISSAI International Standards for Supreme Audit Institutions
ISO International Organization for Standardization
IT Information technology
ITGC IT general controls
ITS Information Technology Services Division (before 2022 restructuring)
KMC Knowledge Management and Collaboration
KPI Key Performance Indicators
Management UNIDO’s Management
MFA Multi-Factor Authentication
MTPF Medium-Term Programme Framework
M&E Monitoring and Evaluation
ODG Office of the Director General
ODG/CHM Office of Change Management
ODG/CSI Office of Communications, Speeches and the Innovation Lab
ODG/SPU Office of Strategic Planning and UN Engagement
OC Operations Committee
Organization United Nations Industrial Development Organization
PBC Programme and Budget Committee
PM Project manager
PPE Property, plant and equipment
PPM Portfolio and project management
PRM Project Risk Management
PSC Programme support costs
RB Regular budget
ROTC Resource optimization for technical cooperation
RPA Robotic process automation
RTLS Real Time Location System
RRFP Results and Risks Focal Points
SAP Basis Business Application Software Integrated Solution
SAP ERP Enterprise Resource Planning
SAP SRM Supplier Relationship Management
SDG Sustainable Development Goal
SoD Segregation of duties
SOP Standard operating procedures
SRM Supplier relationship management
SSO Single Sign On
TC Technical Cooperation
TC Guidelines Guidelines on technical cooperation programmes and projects
TCS Directorate of Technical Cooperation and Sustainable Industrial Development
ToR Terms of Reference
TOS Technical and Operational Services
UNDP United Nations Development Programme
UNDS United Nations Development System
UN United Nations
UNGM United Nations Global Marketplace
UNIDO United Nations Industrial Development Organization
UNRC United Nations Resident Coordinator
VC Voluntary contributions
VIC Vienna International Centre
3E Economy, efficiency and effectiveness

СЧЕТНАЯ ПАЛАТА РОССИЙСКОЙ ФЕДЕРАЦИИ
ACCOUNTS CHAMBER OF THE RUSSIAN FEDERATION

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LETTER OF TRANSMITTAL

Dear Mr. Solano Ortiz,

It is my honor to present the External Auditor's report for the United Nations Industrial Development Organization (UNIDO) to the fifty-first session of the Industrial Development Board at the thirty-ninth 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 31 December 2022.

Acting Chair Galina Izotova

H.E. Alejandro Solano Ortiz
President of the fiftieth 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 thank the Programme and Budget Committee, the Industrial Development Board and the General Conference for their continued support and interest in our work as the External Auditor for the financial years 2022–2023.

Acting Chair, **Galina Izotova**

Accounts Chamber of the Russian Federation

External Auditor

Moscow, Russia

17 April 2023

INDEPENDENT AUDITOR'S REPORT

To the Industrial Development Board of United Nations Industrial Development Organization

Report on the Audit of the Financial Statements

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNIDO as at 31 December 2022 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

We have audited the financial statements of United Nations Industrial Development Organization (UNIDO) for the year ended December 31, 2022. The financial statements comprise:

- Statement of financial position;
- Statement of financial performance;
- Statement of changes in net assets;
- Cash flow statement;
- Statement of comparison of budget and actual amounts; and
- Notes to the financial statements.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under these 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 the ISA 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 the ISA, we exercise professional judgement 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 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.

Acting Chair, **Ms. Galina Izotova**

Accounts Chamber of the Russian Federation

External Auditor

Moscow, Russia

17 April 2023

Mandate of the External Auditor

Pursuant to the General Conference Decision No. GC.19/Dec.11, the General Conference decided to appoint the Auditor General of the Russian Federation as the External Auditor for UNIDO for a period of two years, from 1 July 2022 to 30 June 2024, under the terms of reference specified in the Financial Regulations of UNIDO.

The external audit aims to express an opinion on whether the financial statements of UNIDO are prepared, in all material respects, in accordance with the International Public Sector Accounting Standards (IPSAS).

The External Auditor may make observations with respect to the regularity, economy, efficiency, and effectiveness of the financial procedures, the accounting system, the internal financial controls and, in general, with respect to the administration and management of the Organization. Such audit procedures are referred to as "performance audit"[1].

The External Auditor performs audit procedures in accordance with the requirements of the international standards on auditing (ISA and ISSAI).

[1] ISSAI 300.9 *Fundamental Principles of Performance Auditing*.

Executive summary

Overview

The External Auditor report includes an assessment of the UNIDO's operations and key 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 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.

Audit objective

Scope of the audit and standards used by the External Auditor

The Director General (the "DG") is responsible for preparing the annual financial statements in accordance with Article X of UNIDO's Financial Regulations and Rules (the "FRR") and in conformity with the International Public Sector Accounting Standards ("IPSAS"). The audit of the financial statements for the year ended 31 December 2022 was prepared in accordance with the International Standards on Auditing ("ISA"). Additional observations on business processes were made based on the ISSAI and ISO.

The audit scope includes the following areas:

- **Financial audit** to ensure that the financial statements were free from material misstatements.
- **Performance audit,** including an assessment of the Organization's key processes. It is carried out to assess whether financial management and governance are economical, efficient, and effective (the 3E concept) and can support the Organization in achieving its mission and the strategic plans. Three areas were selected for the performance audit in FY 2022:
  - Organizational restructuring;
  - Corruption and fraud;
  - Risk management.

  In addition, we performed substantive procedures as part of the field visits to the Republic of Belarus, the Republic of Peru and the Republic of Liberia that were selected in scope for the procedures in FY 2022–2023.
- **IT audit.** The audit of this area was integrated into the financial statements audit.

  The procedures were focused on two main streams:
  - ***Effectiveness of the IT general controls (ITGC)***: an evaluation of the ITGC to assess the reliability and integrity of key applications used by UNIDO (SAP ERP, SAP SRM).
  - ***Roll-forward of the 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 performed an initial assessment in the beginning of our auditor's mandate in FY 2020 and then annually update status of identified cybersecurity issues (roll-forward).

Audit opinion

In accordance with Article XI of the FRR, the responsibility of the External Auditor is to express an opinion on UNIDO's financial statements, which comprise the following statements as at 31 December 2022:

- Statement of financial position;
- Statement of financial performance;
- Statement of changes in net assets;
- Cash flow statement;
- Statement of comparison of budget and actual amounts;
- Notes to the financial statements.

We issued an unmodified auditor's opinion regarding UNIDO's financial statements as at 31 December 2022 and for the year then ended.

Key Methodology Aspects

- **Defining materiality**: We assessed the threshold for aggregated misstatements for the financial statement line items and the tolerance for individual misstatements.

  The External Auditor defined overall materiality based on UNIDO's annual expenses and other qualitative factors. The materiality is the basis for assessment of the audit scope. The materiality is calculated taking into account quantitative and qualitative factors including the identified risks.

  Materiality is subject to reassessment taking into account identified risks and a number of corrected and (or) uncorrected misstatements in the financial statements provided to the External Auditor.

- **Developing an understanding of business processes and accounting policies**: Under ISA 315[2] the External Auditor has responsibility to identify and assess risks of material misstatement in the financial statements through the understanding of the auditee and its environment, including the internal controls and risk assessment process. Following the requirements, the External Auditor documented the understanding of key business processes (how each business process is designed) in the process narratives and walked through them (to verify the accuracy of the documented processes descriptions). The processes that impact financial statements and internal control environment of UNIDO are included in the scope of the audit.

- **Identifying audit risks:** Based on the verified processes we identified potential "wrong-doings" and respective risks at the financial statements and assertion level:

  – Significant risks (including fraud risk);

  – Other risks (higher, moderate, or low).

- **Response to audit risk:** The External Auditor performed assessment of the identified risks pervasiveness to plan appropriate audit response, that is defined by the External Auditor independently in line with nature of the identified risks and UNIDO operations.

  This means that the susceptibility to the material misstatements, design of internal processes and the volume of operations (not the size of the organization) directly impact the audit procedures. Under ISA 315, audit procedures include:

  – Inquiry;

  – Analytical procedures;

  – Observation;

  – Inspection.

  The audit procedures are performed on a sampling basis assuming responsibility of the External Auditor to determine sample size (number of transactions to inspect) in order to reduce audit risk to an acceptably low level.[3]

  The External Auditor forms the opinion that is based on the provided evidence. The provided evidence shall include corroborative support, which includes properly authorized documents. Inquiries, emails, or documents without proper authorization shall not be accepted by the External Auditor.[4]

- **Control environment assessment:** The assessment includes the analysis of key business processes and IT infrastructure in order to conclude whether Management is able to prevent material misstatements or identify them on a timely basis. The following steps are key:

  – Risk assessment of the control environment, including cyber risks: where the risks may come from, what the risks are and what their severity is;

  – Considering processes and IT systems in scope;

  – Test of the controls design and operational efficiency: the External Auditor inspects whether appropriate internal controls are in place and operate to prevent or timely detect material misstatement.

  We assessed 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.

  The External Auditor analysed selected business functions with respect to the regularity, economy, efficiency, and effectiveness of the financial procedures.

  The functions for analysis are selected based on the risk-based approach and current relevance, e.g., the Organization is undergoing a major restructuring, which may lead to different risks in all other functions and processes within UNIDO, that is why the restructuring was one of the selected performance audit topics in FY 2022.

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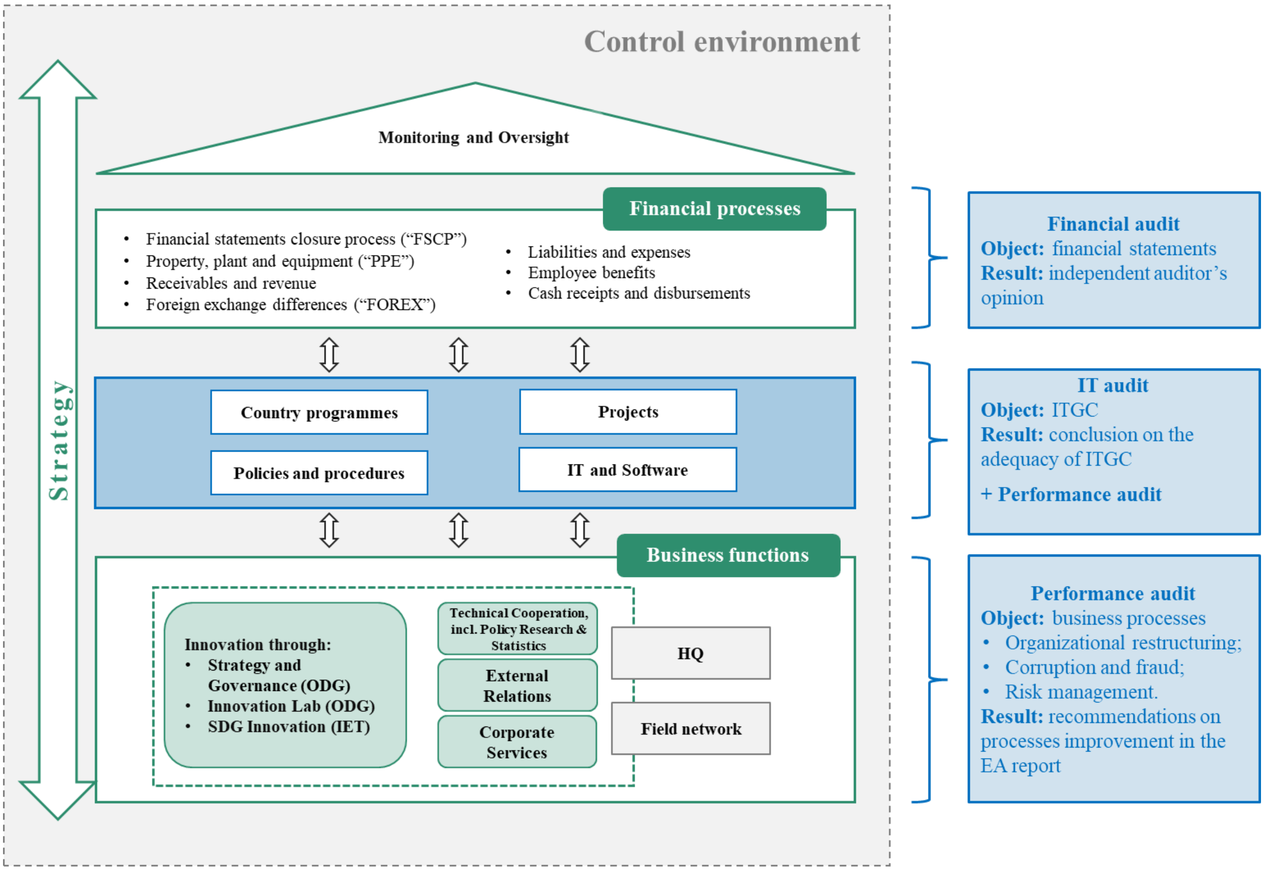
[2] ISA 315 "Identifying and Assessing the Risks of Material Misstatement".
[3] ISA 530.7 "Audit Sampling".
[4] ISA 500 "Audit Evidence".

Focus areas

As required by the ISA,[5] the External Auditor performs risk assessment by obtaining understanding of the audited organization and its environment. The control environment of an organization comprises several fundamental layers: business functions (organizational structure), information and communication channels (administration procedures, communications, and IT), and business operations that are reported in the financial statements.

The Management is responsible for the strategy and development of the internal controls that safeguard business from failure and reporting from material misstatements. The External Auditor designs the procedures to obtain reasonable assurance of the control environment and financial operations. In Figure 1 below, we provided an overview of the audit process to illustrate the structure of the audit objectives.

Figure 1. An overview of the audit process



We identified the key business processes that cover UNIDO's operations. We audited these business processes as part of the audit of the financial statements for the year ended 31 December 2022. We also selected business processes for the performance audit.

The External Auditor's report on the financial year 2022 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's Management. The DG took note of the report and agreed with the findings. In the section below, we provide an overview of the key audit observations related to business processes.

[5] ISA 315 "Identifying and Assessing the Risks of Material Misstatement".

Key audit observations

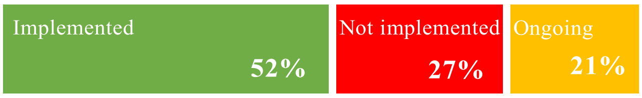
High

1. External Auditor's Recommendations Status

Status: pending resolution

We observed a noticeable number of the External Auditors' prior years recommendations where there was no or little development in the implementation status, especially related to the performance audit, such as HR management, ROTC and certain aspects of the project implementation.

Figure 2. Implementation status of prior year recommendations



As we understand from UNIDO's comments, the implementation delays were to a certain extent caused by the 2022 Secretariat restructuring as it effected the priority of the tasks as well as changed the responsible persons.

We strongly encourage UNIDO's Management to prepare a road map for the implementation of the External Auditor's recommendations, identifying estimated timeframes and responsible persons, and regularly review the progress of the implementation of the External Auditor's recommendations.

Management response: Agree. ROTC is a modality that affects UNIDO as a whole. The overall responsibility for the continuation of the roll-out of ROTC and the related recommendations by the External Auditors should be overseen by the Executive/Leadership Board or the UNIDO Senior Level Focal Point for MAPs.

High

2. Budget

Status: pending resolution

We would like to draw attention to the process of staff cost budgeting according to the existing practice. Within the FY 2022 audit we performed an analysis of staff cost included in the FY 2022–2023 budget versus actual cost in the financial statements.

In fact, UNIDO applies the inflation rate provided by International Civil Service Commission (ICSC) as is required by the UN system, although the FY 2022–2023 budget included a lower inflation rate.

As a result, UNIDO approved budget was lower, while the actual 2022 staff cost is based on mandatory ICSC inflation rate. The variance results in the deficit of the budget.

We encourage the Management to perform detailed analysis of the actual key inputs versus the planned in the FY 2022–2023 budget. In particular, we are emphasizing evaluation of the applied inflation rates. The gap between actual and budgeted costs shall be considered and minimized, especially taking into account increasing actual inflation rates. We suggest that UNIDO explore options with the Member States to accommodate annual programme and budgets revisions to incorporate positive or negative changes in inflation.

Management response: Agree. The UNIDO Secretariat will perform the review of the budgeting for inflation adjustment with the purposed to present the methodology for Member States information by the 40th session of the Programme and Budget Committee to strengthen transparency and accountability of the budgeting processes.

High

3. Risk management

Status: pending resolution

The topic of risk management is consistently covered on the annual meetings of IDB and PBC as a separate agenda item which signals its importance to the governing bodies.

This year we performed the maturity assessment of both Enterprise Risk Management (ERM) and Project Risk Management (PRM) in UNIDO in accordance with ISO 31000[6].The holistic analysis identified that in many aspects the Organization applies risk management practices and tools in an ad-hoc or fragmented manner:

- *ERM policy* is outdated, frequently not applied in practice.
- *Consolidated Risk Register* has not been updated since FY 2018, does not include most of risk mitigation plans.

We emphasize required further progress in the development of the risk management system in the whole Organization. In particular, "tone at the top" approach shall be applied by encouraging top management to apply ERM policy and proactively developing risk mitigation plans.

Especially it is important to update the risk management policies and develop a consolidated approach for risk factors identification, mitigation actions and plans. The systematic approach cascading down the risk management procedures will significantly impact operations minimizing risks that are well-known by more experienced UNIDO staff. It is important to share not only success stories, but a failure as well to make sure that staff is aware how to

[6] ISO 31000 *Risk Management.*

- *IT tools.* Excel spreadsheets are used for risk management instead of *an IT tool* impacting ERM efficiency.
- *Lack of risk-based decision-making and of unified systematic approach to PRM.*

manage "worst case scenario", plan mitigation risk factors accordingly and avoid projects with negative KPIs.

Management response: **Agree.** The pace of progress towards and ultimately full achievement of the proposed recommendations will depend on availability of financial/human resources.

Critical
Status: partially resolved

4. IT general controls (ITGC)

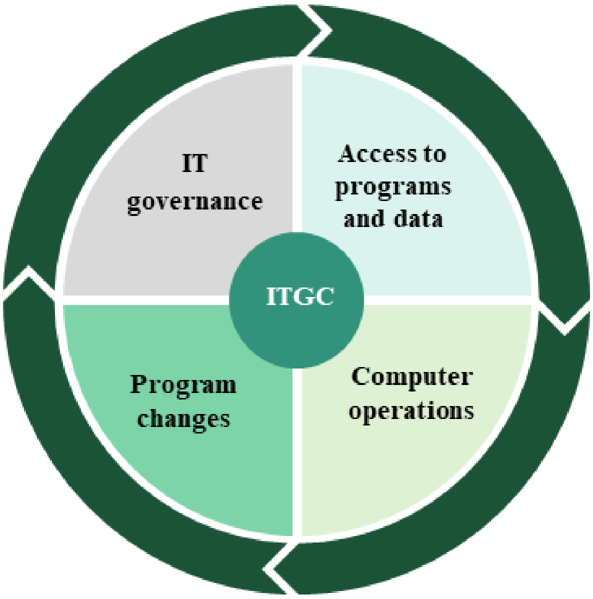
As part of the financial statements audit, we evaluated IT general controls to assess the reliability and integrity of the key applications used by UNIDO.

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 3. IT domains



In FY 2022 we noted significant progress in remediating IT control deficiencies. Assuming existing budgetary constraints and complexity of IT matters, the Management has demonstrated a commitment to this area and professional approach.

At the same time, the existing IT deficiencies are critical. Therefore, the External Auditor cannot rely on UNIDO's IT general controls due to the high potential exposure to IT risks. This results in the additional procedures performed by the External Auditor and requires additional attention to the data extracted from UNIDO key IT systems (SAP ERP and SAP SRM). Key observations in FY 2022:

- **Segregation of duties** remains an issue. Management introduced updates to standard operating procedures. The External Auditor supports the ongoing UNIDO project to rationalize the access. Especially this is important in the light of the Organization's structure changes when many staff members have been shifted around the Organization and now many employees are granted with new access rights.
- **Privileged rights**: Decrease of "privileged operations" is a good sign, but keeps internal controls exposed to IT risks, since privilege accounts shall be either blocked, or specifically monitored and complemented by additional internal controls.

We recommend that Management continue the implementation of the developed remediation plan.

Management response: **Agree.** Significant progress has been made since the last observations and efforts will be made to fully remedy the recommendations during 2023.

Audit results

Introduction

UNIDO is a specialized United Nations (UN) agency that aims to promote and accelerate inclusive and sustainable industrial development (ISID) in the 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 71 per cent of the Organization's total revenue. In addition, UNIDO engages in revenue producing activities, including building management services (BMS).

In FY 2022, UNIDO's Secretariat underwent a major restructuring and is still going through the change redesigning business functions and processes. The change management process was specifically considered as part of the performance audit.

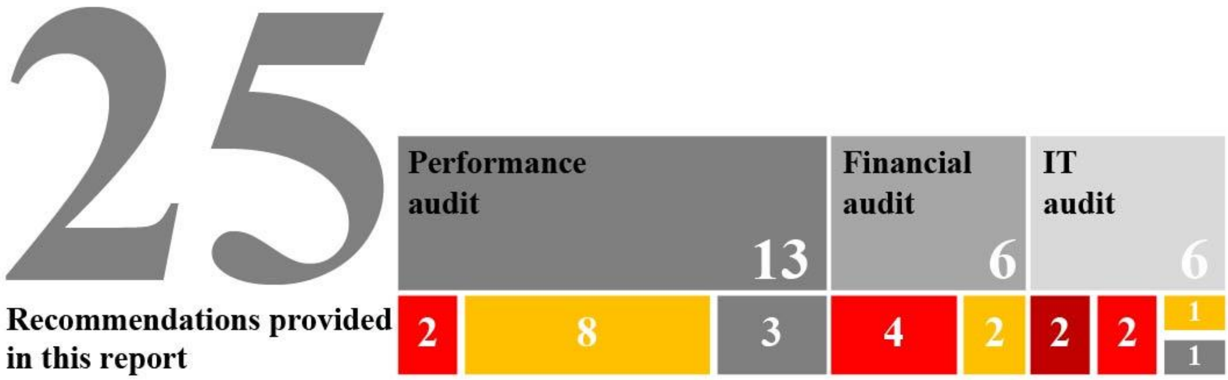
In the financial audit observations, we focused on key considerations that require the strengthening of internal controls. The design of controls plays a significant role in ensuring reliability of internal controls. Recommendations on strengthening the IT general controls are provided in Section C "IT and Innovations". While we observed significant improvement of IT general controls in FY 2022, the overall conclusion was that the IT general controls can be further improved. Taking that into consideration, we expanded our work and tested additional documents to mitigate the audit risk. We support UNIDO's Management in continuing the work regarding IT deficiencies remediation and following the designed management plans.

We recognize an outstanding commitment and dedication of UNIDO's Management. Despite the resource constraints and economic challenges such as inflation, there are numerous examples of working "beyond possible". A comprehensive work with issues in the financial statements and IT issues results in tremendous progress, so we encourage UNIDO to continue strengthening the control environment. In FY 2022, we covered three sections of the performance audit and considered the innovation spirit of the Organization. Overall, while the External Auditor made some critical observations, it is important to highlight that UNIDO's internal processes were well supported by the dedicated work of the staff. In many areas we noted examples of "out-of-the-box" thinking and application of the latest technologies supported by the staff's personal initiatives. This is a critical success factor and a sign of a resilient and mature organization.

Further, we would like to mention the IPSAS updates in the upcoming accounting periods. IPSAS 41, Financial Instruments, enters into effect on 1 January 2023. Taking into account the complexity of the accounting standard and the pervasive impact of various financial instruments, we encourage the Management to consider preparing for the transition at the earliest stages during FY 2023. Using IPSAS 41 will require the collection of additional and not readily available data, so it is important to start the transition gradually.

Summary of the External Auditor's recommendations for FY 2022 is provided in Figure 4.

Figure 4. Summary of the External Auditor's recommendations



The External Auditor Recommendations	Level of risk
A. Financial audit	
A.1. Property, plant and equipment	
A.1.1. Recognition. Strengthening of controls over property, plant and equipment recognition is required	High
A.1.2. Derecognition. Strengthening of controls over the timely derecognition of project assets is required	High
A.2. Liabilities and Expenses	
A.2.1. An assessment of contractual services through the TC delivery on the IPSAS basis is encouraged	High
A.2.2. The full cost recovery implementation strategy shall be revised	Medium
A.3. Budget	
A.3.1. Budget does not contain sufficient details of the planned activities	Medium
A.3.2. Procedures and instructions on budget inputs, including inflation rates, shall be revised	High
B. Performance audit	
B.1. Organizational restructuring	
B.1.1. The organizational restructuring process is not sufficiently regulated	Medium
B.1.2. The staff rotation process during the restructuring requires improvement	Low
B.1.3. Monitoring and evaluation process should be improved	Medium
B.2. Corruption and fraud	
B.2.1. Regulation of corruption risks requires improvement	High
B.2.2. Due diligence procedures for suppliers should be improved	Medium
B.2.3. Training activities on fraud and corruption require improvement	Medium
B.2.4. Effectiveness of whistle-blowing hotline is not regularly analysed	Low
B.3. Risk management	
B.3.1. The potential of “tone at the top” as the basis of ERM is not fully realized	High
B.3.2. The ERM Policy contains outdated information or requirements not used in practice	Medium
B.3.3. Structure of the Consolidated Risk Register requires improvement	Medium
B.3.4. No specific IT tools for ERM are in place	Low
B.3.5. Risk management matters might not be considered in decision-making on projects	Medium
B.3.6. Lack of a unified and systematic approach to PRM	Medium
C. Information technology (IT) and Innovations	
C.1. Information technology general controls (ITGC)	
C.1.1. ITGC. SAP privileged account management	Critical
C.1.2. ITGC. Privileged access rights within the change management process	Critical
C.1.3. ITGC. Segregation of duties among business users	High
C.1.4. ITGC. Security settings in SAP	High
C.1.5. ITGC. Removing access rights from dismissed/resigned employees	Medium
C.1.6. ITGC. Monitoring of SAP automated jobs	Low
C.1.7. ITGC. Segregation of duties in the IT function *(remediated)*	Critical

Priority of the recommendations:

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

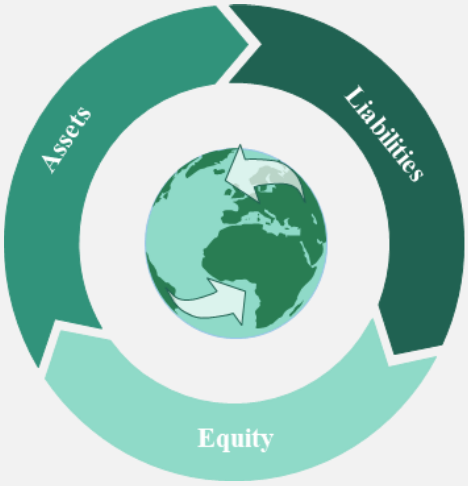
A. Financial audit | **B. Performance audit** | **C. IT and Innovations**

A. Financial audit

Financial Statements overview: Statement of financial position

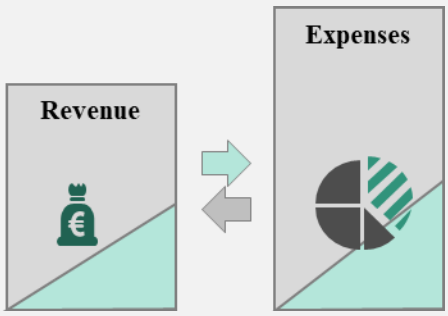
Overview of financial position as at 31.12.2022

Figure 5



Overview of financial performance for the year ended 31.12.2022

Figure 6



Cash and cash equivalents represent **56 per cent** of total assets, demonstrating a stable balance. Nearly **99 per cent** of cash and cash equivalents are held in rated financial institutions.

Accounts receivable from non-exchange transactions remain significant at around **32 per cent** of the total value of assets. Receivables from the Member States represent five per cent of the receivables' balance, while their major part relates to voluntary contributions.

Property, plant and equipment (PPE). **49 per cent** of the PPE net book value relates to UNIDO's share in the Vienna International Centre (VIC). The remaining amount is represented by project assets, which decreased in 2022 due to the growth of the Organization's activities after the COVID-19 pandemic shut-downs.

Employee benefits balances represent primarily post-employment benefits, including the after service health insurance, and constitute **48 per cent** of the total liabilities. A 34 per cent decrease in the employee benefits balance is explained by the growth of the discount rate.

Accumulated surplus increased by 41 per cent (€143 million) due to the net surplus for the year and actuarial gains.

Assessed contributions represent **21 per cent** of the total revenue. The collection rate in FY 2022 is 88.9 per cent, which is higher than 86.5 per cent in FY 2020 (the first year of the previous biennium).

Voluntary contributions (VC) represent **71 per cent** of the total revenue. VCs remain a key source of funds for UNIDO.

Expenses incurred stood at approx. €310 million with a €23 million operational surplus. Nearly **30 per cent** of expenses pertain to contractual services.

Currency exchange gains/losses. In FY 2022 currency exchange gain amounted to €31.7 million, the major part of which constitutes translation gains/losses while the realized part is insignificant.

Adjustment of financial statements

During the audit, we identified the following cases that required adjustment of the current and previous years' financial statements line items. The following key adjustments were performed (for the list of adjustments, see Note 23 to the FS):

- **Classification of receivables as current and non-current**. We noticed that distinguishing between the current and non-current portions of the GEF receivables may be inaccurate based either on the project budget or historical data. The current portion of receivables should represent the best estimate of expected cash inflows during next twelve months. UNIDO adjusted the opening balance by €91.6 million to reclassify the GEF receivables from current assets to non-current as at 31.12.2021. €63.4 million of non-current assets were reclassified to current assets as at 31.12.2022.

A. Financial audit | **B. Performance audit** | **C. IT and Innovations**

- **Contractual services**. We identified a contractual services transaction for an amount of €2 million that related to the prior year (2021) in accordance with the supporting documents. UNIDO adjusted the amount of contractual services for 2022 and the accumulated surplus as at 31.12.2021.
- **Gross presentation of income and expenses related to the UNDP's projects implemented by UNIDO.** The amount of expenses was corrected by €2 million. Originally the amount was presented as a part of advance receipts and deferred income. The restatement presented a separate recognition of income and expenses.

In the report below, our observations are grouped by business processes. General observations that relate to the preparation of the financial statements and the financial audit observations are presented in **Section A**, the performance audit observations are presented in **Section B**. **Section C** covers the IT and Innovations audit and **Section D** contains the External Auditor's recommendations from prior years.

A. Financial audit

Recommendations	Level of risk
A.1. Property, plant and equipment	
A.1.1. Recognition. Strengthening of controls over property, plant and equipment recognition is required	High
A.1.2. Derecognition. Strengthening of controls over the timely derecognition of project assets is required	High
A.2. Liabilities and Expenses	
A.2.1. An assessment of contractual services through the TC delivery on the IPSAS basis is encouraged	High
A.2.2. The full cost recovery implementation strategy shall be revised	Medium
A.3. Budget	
A.3.1. Budget does not contain sufficient details of the planned activities	Medium
A.3.2. Procedures and instructions on budget inputs, including inflation rates, shall be revised	High

A.1. Property, plant and equipment

A major part of property, plant and equipment is represented by the VIC building (€30 million out of €61 million). The rest of PPE primarily comprises machinery and equipment for technical cooperation (€23.2 million). Since UNIDO implements projects worldwide, project assets are located in various countries that leads to the increased risks to their existence and safety. In order to be able to manage these risks, UNIDO shall have a robust internal control system. During the audit of prior periods (FY 2020–2021), we identified some weaknesses in internal controls over assets existence, assets omissions, and assets controls that led to misstatements in the financial statements.

In FY 2022, we acknowledge UNIDO's efforts in strengthening the internal control system by designing additional asset control procedures in response to the External Auditor's recommendations, in particular:

- Enhanced controls over the BMS assets by extending to them the Real Time Location System that facilitates the asset management process and strengthens the control environment;
- An additional internal control procedure to ensure that assets delivered but not yet installed are properly recorded as construction in progress at the reporting date;
- A control procedure for the identification of non-controlled PPE assets that have to be removed from the balance sheet as at the reporting date.

Despite the significant improvements in internal controls, we note limitations regarding the recording, monitoring and safekeeping of property, plant and equipment and their safety; therefore, further efforts are required from the Management in this regard.

A. Financial audit | **B. Performance audit** | **C. IT and Innovations**

A.1.1. Property, Plant and Equipment

Strengthening of controls over property, plant and equipment recognition is required

High

Recommendation

We recommend that the Management strengthen internal controls and recognize the assets strictly upon delivery

We performed a physical observation of project assets located in fields. In particular, we inspected assets in Austria, Belarus, Peru and Liberia. We identified that an asset may be recognized as a part of property, plant and equipment when it was not commissioned and even not delivered. For example, the equipment for the amount of $2.2 million was recorded as located in the Republic of Belarus whereas this asset was awaiting delivery to the Republic of Kazakhstan. As a result, UNIDO improperly recognized the undelivered asset at the erroneous location.

During the physical observation in the Republic of Liberia we also identified inefficiencies caused by SAP ERP configuration. In particular, we noted that some analytical data such as location details and unique identification numbers were not indicated in SAP, which complicated the process of physical verification. Incomplete information may lead to lack of controls over the assets' existence and increased risks to the assets' safety. At the same time, the assets selected for the inspection in Liberia were properly identified and inspected by the audit team.

According to the Property Management Manual, UNIDO recognizes on its balance sheet:

- "Construction in progress", after an asset has been delivered;
- "Property, plant and equipment", based on a certificate of acceptance once the asset is installed and commissioned.

Thus, an asset should not be recognized in accounting until it is delivered.

The identified cases of improper assets recognition indicate insufficient or ineffective internal controls over this process that may lead to an overstatement of assets net book value and corresponding depreciation in the financial statements.

Recommendation Status: Open

We recommend that UNIDO's Management:

a. Implement internal controls over the accuracy of property, plant and equipment recognition to ensure that it is recognized only when it is delivered and commissioned as stated in the supporting documents;

b. Introduce additional configuration of SAP ERP to provide necessary analytical data (such as asset unique ID, location, etc.).

Management response: Agree.

a. With respect to the first part of the recommendation – that UNIDO Management implement internal controls over the accuracy of property, plant and equipment recognition to ensure that it is recognized only when it is delivered and commissioned as stated in supporting documents, **the recommendation is accepted**.

b. With respect to the second part of the recommendation – introduction of additional configuration of SAP ERP to provide necessary analytical data (such as asset unique ID, location, etc.). **The recommendation is accepted.**

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A.1.2. PPE

Strengthening of controls over the timely derecognition of project assets is required

High

Recommendation

We recommend that UNIDO's Management strengthen internal controls over the assets' status

Importance of the timely derecognition of project assets was elaborated in the prior year's External Auditor's report. Once project assets are installed, used by the beneficiaries, and there is no donor's requirement to keep the assets on UNIDO's balance sheet until project completion, such assets shall be removed from the UNIDO balance sheet. UNIDO does not have control over such assets regardless of the expected transfer of title since such assets are used by the beneficiary and in many cases UNIDO cannot access the asset.

Such an approach is stated in para 70 of the UNIDO Property Management Manual: *"…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"*.

Taking into account the high number of projects implemented by UNIDO annually and their wide geography, the net book value of non-controlled project assets may be material, therefore the balance of property, plant and equipment in the financial statements becomes less informative. Based on the project managers' (PMs) survey performed during the audit, we identified that the net book value of the assets already being used by the beneficiaries amounts to €5 million as at the year end.

In FY 2021, we recommended that UNIDO's Management perform an analysis of the PPE assets recorded in UNIDO's financial statements and strengthen internal controls over their status. In response to this recommendation, UNIDO launched the Control Questionnaire, sent out to project managers on a monthly basis with the aim to identify non-controlled assets that shall be expensed and title to them transferred to the beneficiaries.

During the FY 2022 audit, we noticed a slow PMs' response to the above requests. In addition, we noted the lack of PMs' stimulus to issue Transfer of Title documents to the beneficiaries in a timely manner. We concluded that the current internal controls procedures over property, plant and equipment remain an open topic and require significant improvement in order to exclude any cases of untimely derecognized assets.

Recommendation — Status: Open

We recommend that UNIDO's Management:

a. Strengthen internal controls over the non-controlled assets, e.g., by the escalation to the management level and application of a top-down approach when control is initiated by the Chiefs of TC units or the Directors of TC divisions;

b. Consider the possibility of embedding KPI "Timely transfer of assets under a project" in the TC delivery assessment, in order to increase PMs' responsibility for the timely transfer of non-controlled assets;

c. Develop a brief practical guidance with deadlines for feedback and emphasize the importance of the compliance with para 70 of the UNIDO Property Management Manual described above.

Management response: Agree.

The revision of the Integrated Result and Performance Framework is already envisaged as part of the preparation for the Medium Terms Framework Programme 2025–2028 to include a new KPI.

A. Financial audit	B. Performance audit	C. IT and Innovations

A.2. Liabilities and Expenses

A.2.1. Expenses

An assessment of contractual services through the TC delivery on the IPSAS basis is encouraged

High

Recommendation

We recommend that UNIDO's Management strengthen internal controls over the timely recognition of expenses incurred

In the FY 2021 audit report, we noted that contractual services may include expenses that relate to the previous reporting periods. We acknowledge UNIDO's Management efforts in this respect, including the reminders on the timely reporting of incurred expenses and the control procedure to include expenses in the proper period at the year end. At the same time, we still see individual cases of late expense recognition, which means the existing internal controls do not fully cover a risk that expenses are not recorded in the period to which they relate.

One of the reasons for control failure is an approach to the targets assigned to PMs. Currently, the PMs report on the progress of TC projects (TC delivery) is based on the contracted expenses, including the unliquidated obligations (ULOs). This means that as soon as a PM signs a contract with a supplier, the PM has already delivered a part of a project, although the project activities have not started yet.

At the same time, under the IPSAS requirements expenses that arise in relation to the completed activities and the signed contracts are not reflected as part of expenses in the financial statements. In fact, there is a mismatch between a PM target and the expenses recorded in the financial statements. As a result, there is no stimulus for PMs to provide supporting documents once the activity is performed and the expenses may be omitted from the financial statements.

In order to strengthen control over the timely recognition of contractual costs, UNIDO's Management may, as an option, revise the principles of TC delivery assessment and move to an IPSAS-based approach. In this case, TC delivery will be based on the actually incurred expenses and accruals related to the goods or services received not invoiced. This approach would harmonize the financial statements with UNIDO's Annual Report and other TC delivery reports ensuring the clarity of UNIDO's reports for the Member States, donors, and other stakeholders.

To prevent recognition of fictitious or unjustified expenses, the above transition shall be done only after proper SAP settings are made. In particular, the system must allow creating a confirmation only if it is accompanied with the supporting documents evidencing asset delivery or provision of services. In addition, regular spot checks should be performed by Financial Services (COR/FIN) for verification of supporting documents attached to the confirmation.

Recommendation	Status: Open

We recommend that UNIDO's Management strengthen internal controls over the timely recognition of expenses incurred. For that purpose, UNIDO's Management may consider the following:

a. Implement transition to reporting TC delivery on IPSAS basis to align with other organizations of the UN System and ensure the comparability of data;

b. Configure SAP functionality so that a confirmation could only be created if accompanied with proper supporting documents, evidencing asset delivery or provision of service;

c. Include representatives from the Financial Services (COR/FIN) in the purchase order approval workflow or implement spot checks.

Management response: Agree.

The revision of the Integrated Result and Performance Framework is already envisaged as part of the preparation for the Medium Terms Framework Programme 2025–2028 to include the respective KPI. The implementation of the system-related enhancements of the recommendation is subject to IT support.

A.2.2. Expenses

The full cost recovery implementation strategy shall be revised

Medium

Recommendation

We recommend that UNIDO's Management revise the strategy of the FCR implementation involving the gap analysis between costs incurred and costs reimbursed by the donors

During the FY 2020–2021 audits, the External Auditor issued recommendations regarding the improvement of the full cost recovery (FCR) system to enable financing of TC projects fully from extra-budgetary sources without subsidies from the regular budget.

Despite UNIDO's intention to move towards strengthening the FCR process, the significant number of projects with major donors have the PSC rates in the range between 7 and 9.5 per cent, whereas the actual costs may be much higher.

From our point of view, the following steps may be considered:

Accurate and complete estimation of the expected costs

Although the project budget includes the estimated costs of Technical and Operational Services (TOS[7]) as well as Direct Service Costs (DSC[8]), the accuracy and completeness of such expenses shall be revised.

Such estimation may significantly deviate from the actual cost and may be uncovered by a donor. In fact, such a project will be closed with the budget deficit, which shall be considered at the planning stage of the project.

In order to avoid project budget deficit, the revision of the estimated costs in line with the project financing is required. The PM should identify key cost drivers. As a result, the PMs should undertake the necessary actions and revise the estimated costs to minimize the project budget deficit, taking into account the potential for avoiding costs (e.g., using the beneficiary's premises instead of leasing from third parties), economy of scale (including the UN organizations collaboration), cost-effective solutions, project specifics, and other factors.

Gap analysis between the actual and estimated costs

The PM shall calculate the actual costs incurred on the project to compare with the approved estimated cost. The identified gaps shall be analysed to understand which actual expenses are not covered by the donor and shall be either avoided or taken into account in future estimations.

Recommendation	Status: Open

We recommend that UNIDO's Management revise the strategy of the full cost recovery implementation by performing the following steps:

a. Perform accurate and complete cost estimations;
b. Consider implementation of the cost accounting system in order to ensure calculation of actual costs;
c. Perform a gap analysis between the actual and estimated costs in order to identify avoidable expenses and minimize the project budget deficits in the future.

Management response: Agree.

The recommendation is relevant not only to FCR, but also to overall project implementation strategy due to very much changing environment, price changes, exchange rate fluctuations, work force costs and uncertainty in results of Purchase/Service contracts. DCS represent only a small portion of these costs, which PM has to take into account with every action. There is a price list for FCR tracing factors (activity prices), which can help PMs to arrive to the overall cost of ownership/action costs. As such due to the much bigger uncertainties arising during project implementation, DCS may represent much lesser impact or risk of running project into deficit.

In regards to TOS, the actual time spent by RB/DO paid employee has to be carefully estimated and booked to projects provided there is a donor provision for this. More efforts has to be applied to convince donors to include in project budget sufficient TOS amounts reflecting reasonable and adequate amounts corresponding to real time of PM expertise or services rendered to project activities.

[7] Technical and Operational Services (TOS) include staff costs funded from regular or operational budgets, which are spent on projects, registered in timesheets.

[8] Direct Service Costs (DSC) include services rendered to deliver a specific programme or project, such as recruitment of personnel, assets management, procurement of services, equipment and supplies, processing of payments.

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A.3. Budget

A.3.1. Budget

Budget does not contain sufficient details of the planned activities

Medium

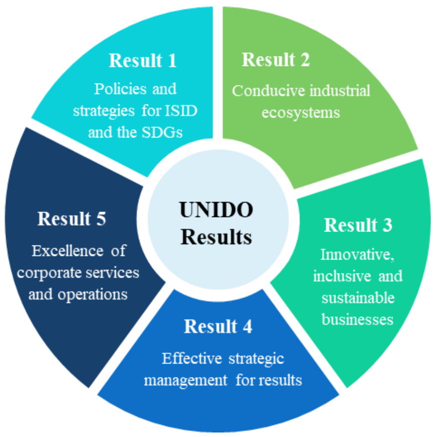
Recommendation

We recommend UNIDO's Management align the Programme and budgets with the FRR requirements and consider the possibility of breaking it down by the IRPF indicators

According to Article III, Programme and budgets, of the Financial Regulations and Rules, the DG shall prepare and submit a draft programme of work for the following biennium, together with the corresponding estimates for those activities to be financed from the regular budget. The regular budget shall be divided into major programmes and subprogrammes in terms of expenditure and into sections in terms of income.

Reviewing the Programme and budgets 2022–2023, we noticed that it is prepared based on the results-based budgeting principles as requested by the Member States and broken down by five UNIDO Results, which, in turn, are broken down by major objects of expenditure, but without any reference to the particular programmes. This approach is inconsistent with the FRR requirements and does not provide the Member States with a comprehensive understanding of the use of funds and the planned activities.

Figure 7. Key UNIDO Results



In this regard, we propose either amending the FRR in terms of budget presentation or mapping the programmes and UNIDO Results when preparing the Programme and budgets in the subsequent bienniums to comply with the FRR requirements.

Additionally, the technical possibility of breaking down the budget by UNIDO's activities expressed by the IRPF indicators presented for each UNIDO Result will allow to improve the clarity of UNIDO's budget for the Member States and make the purpose of funds use more explicit as well as provide clearer understanding about UNIDO's contribution to SDG achievement.

Recommendation	Status: Open

We recommend that UNIDO's Management:

a. Align the Programme and budgets with the FRR requirements;
b. Discuss with the Member States the need for breaking down the budget by the IRPF indicators.

Management response: Agree.

A revision of the Integrated Result and Performance Framework is envisaged as part of the preparation for the Medium Term Programme Framework 2025–2028, which will be in turn the foundation for a revised structure for the Programme and Budget 2025–27, beyond the broad Result Areas that have been the basis for the budget breakdown in the current Programme and Budget 2022–23 and the upcoming Programme and Budget 2024–25.

Having acknowledged and accepted the recommendation, it is noted that 2022–2023 Programme and Budgets have been approved by the Member States in acknowledgement that Result Area is equivalent to Programme retaining the intention and the spirit of the Financial Regulations.

A. Financial audit | **B. Performance audit** | **C. IT and Innovations**

A.3.2. Budget

Procedures and instructions on budget inputs, including inflation rates, shall be revised

High

Recommendation

We recommend conducting a detailed analysis of the inflation rates applied to staff costs and of the completeness of the budgeted staff costs

We performed an analysis of the staff cost increase and reviewed the correctness of the applied inflation rate. We ascertained that UNIDO is guided by the requirements of the UN system and correctly applies the inflation rate provided by the International Civil Service Commission (ICSC).

At the same time, the Programme and budgets for 2022–2023 sets a significantly lower inflation rate than the rate provided by the ICSC. In particular, for General Service staff in Vienna, the interim salary increase for 2022 was projected at 1.4 per cent, while the actual increase in accordance with the ICSC requirements constituted 4.4 per cent.

The current budgeting and budget approval process is conducive to have caused similar situations in earlier periods, namely that the actually applied ICSC inflation rates for General Service staff significantly exceeded the budgeted ones. This could result in the budget gaps accumulated over the years, as the difference between the budgeted and ICSC rates would have to be covered from other budgetary lines. Such gap may entail significant risks of a budget shortfall to pay to employees. Additionally, there is a risk that the Organization may adjust other budgetary figures, such as vacancy rates and others, to compensate for resulting deficit and ensure that the allocated funds are sufficient.

In order to avoid the risks of budget shortfall while complying with the UN requirements regarding the staff costs increase, UNIDO's Management is highly encouraged to perform a detailed analysis of the inputs used to calculate the budgeted personnel costs and ensure the application of the ICSC inflation rates and correctness of other parameters.

Recommendation Status: Open

We recommend that UNIDO's Management:

a. Conduct a detailed analysis of the inflation rates used for staff costs (including the general and professional staff categories) and ensure that the rates indicated in the Programme and budgets are in line with the ICSC requirements;
b. Review the cost assessment, justification and analysis procedures for budgetary purposes, including the analysis of the budgeted staff costs for completeness, inter alia, alignment of incumbent grade versus the grade of the position occupied. Issue an appropriate administrative instruction based on the review results;
c. Explore options with the Member States to accommodate annual programme and budgets revisions to incorporate positive or negative changes in inflation.

Management response: Agree.

The recommendation is fully accepted and supported. The analysis and instruction documents to be completed not later that in the second year of the 2022–2023 biennium with a view of formulating staff costs for 2026–2027 biennium.

A. Financial audit | B. Performance audit | C. IT and Innovations

B. Performance audit

B.1. Organizational restructuring

Background

In 2022, UNIDO initiated a major organizational restructuring divided into two phases:

Phase 1: UNIDO Secretariat restructuring;

Phase 2: field network restructuring.

The first phase was completed in October 2022 and resulted in a significant transformation of UNIDO Secretariat. In particular, the three directorates formerly responsible for technical cooperation (Directorate of Digitalization, Technology and Agri-Business, Directorate of Environment and Energy, and Directorate of External Relations and Policy Research) were transformed into two new directorates:

- Directorate of Technical Cooperation and Sustainable Industrial Development (TCS) and
- Directorate of SDG Innovation and Economic Transformation (IET).

At the same time, while the divisions within the TCS are primarily involved in technical cooperation, the IET includes also divisions involved in quality control (IET/QUA), extending and scaling up UNIDO's funding basis (IET/IFI), promoting strategic partnerships to increase the impact potential of UNIDO projects, Programmes for Country Partnership (PCP), Country Programmes (CP) and regional and global cooperation programmes (IET/PPP), and other. As a result, divisions with different functions have been united under the same Directorate. Since the restructuring is still ongoing, UNIDO may consider introducing further alignment between divisions' functions and mandates of the Directorates.

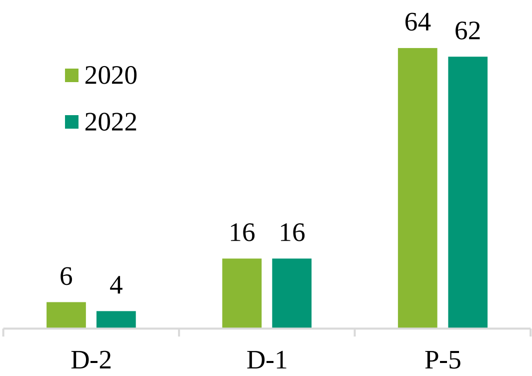
According to the Director General's Bulletin on UNIDO Secretariat Structure dated 7 October 2022, the main aim of the reform is to modernize and strengthen the Organization in line with the needs and priorities of the Member States.

The restructuring resulted in staff rotations between teams, divisions, and Directorates. While new units have been created, the overall staffing strategy was not intended to hire new staff members and replace only the crucial positions.

We compared the number of staff members in top grades from the list of staff for 2020[9] vs. 2022[10] and found that, indeed, the number of people in D-2 and P-5 grades slightly decreased. At the same time, although the numbers remained the same for D-1 positions, it should be noted that it was achieved through a combination of retirements, new hirings, promotions, and demotions.

The second phase, the field network restructuring, is set to be performed in the nearest future.

Figure 8. Change in top grades



Audit approach

We performed the analysis of UNIDO restructuring process covering three key stages: planning, implementation, and monitoring. Within our review of the Secretariat restructuring, we performed the following audit procedures:

- Analysed to what extent the regulatory documents disclose the goals and objectives of the restructuring, as well as considered the consistency and coherence of these documents;
- Assessed whether the proposed structure corresponds to the new priorities of the Organization and the UNIDO's areas for change;
- Considered the methodology applied during the restructuring, whether it complies with best practices and covers all elements of an organizational restructuring;

[9] DGB/2020/04/Add.1 dated 23 June 2022.
[10] DGB/2022/19, Annex III dated 7 October 2022.

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- Assessed the current status of the restructuring process.

Based on the assessment results, we made a number of positive observations regarding the way UNIDO Secretariat was restructured as well as opportunities for improvement.

Positive observations

Dedicated Change Management team

In July 2022, in line with the best change management practices, the Office of Change Management (ODG/CHM) was established as part of the Office of the Director General. The purpose of ODG/CHM is to plan, coordinate, and report on all planned and ongoing change management initiatives in UNIDO and act as an organizational focal point for such initiatives.

The change management team consists of three people with a respective background and experience. The functions of ODG/CHM were initially listed in the Terms of Reference promulgated by the Director General Bulletin (DGB)[11]. An official document with clearly defined functions of the change management team is an example of the best practice applied by UNIDO.

Stocktaking process

Stocktaking of divisions' tasks and responsibilities is crucial for the restructuring results. UNIDO staff is currently undergoing a thorough analysis of existing tasks and responsibilities to ensure they are properly assigned to respective divisions and units considering their capacity. Such an approach is also an example of a good practice as it helps identify critical gaps in staff capacity and other resources as well as timely address other potential issues that may arise during the restructuring.

Agent system

A change agent network is another example of a good practice. The purpose of the agent system is to establish a two-way communication on change in UNIDO between the ODG/CHM and staff in non-managerial positions. The change agent network operates on a voluntary and informal level avoiding interference with the existing lines of command, its participants meet periodically to discuss different topics in change management and develop solutions for the arising issues. The change agent network will help UNIDO management hear the staff members' concerns and timely find solutions for potential issues.

Opportunities for improvement

At the same time, we identified the following opportunities for improvement:

Recommendations	Level of risk
B.1. Organizational restructuring	
B.1.1. The organizational restructuring process is not sufficiently regulated	Medium
B.1.2. The staff rotation process during the restructuring requires improvement	Low
B.1.3. Monitoring and evaluation process should be improved	Medium

[11] Prepared by ODG/CHM dated 15 July 2022, further updated on 7 October 2022.

B.1.1. Organizational restructuring: planning

The organizational restructuring process is not sufficiently regulated

Medium

Recommendation

We recommend UNIDO's Management improve the regulatory documents in respect of the restructuring process

We reviewed the following documents regulating UNIDO restructuring process:

- Terms of Reference (ToR) on Office of Change Management (ODG/CHM);
- Change management framework (CHM Framework);
- Communication plan.

We analysed the alignment between the ToR, CHM Framework and Communication plan and noted the following:

CHM Framework

No mapping of the priorities and the current UNIDO's challenges to the new Secretariat structure

CHM Framework contains UNIDO's new priorities as well as a list of operations where change is required. However, the document does not specify how the new organizational structure will help achieve established priorities and deal with the current Organization's challenges.

Mapping of the new priorities and challenges to the new structure will help UNIDO's stakeholders, including the Member States and staff members, better understand the rationale and the goal of the restructuring and will result in a higher engagement and support of such a complex task. This exercise will also allow to see if there are any strategic activities or priorities that are not sufficiently covered by the necessary personnel resources.

Change management methodology covers only the communication element

ToR of ODG/CHM requires to develop a change management methodology with the details on processes, techniques, tools, and activities. Currently, CHM Framework partially covers this aspect by mentioning the Kubler-Ross change curve which illustrates the different phases of emotions staff members can go through during organizational transformations and allows developing an appropriate communication plan in order to manage emotional reactions of staff members.

At the same time, other elements of the restructuring process, such as strategy, structure, staff skills, systems, etc., are not covered. As UNIDO is currently working on the field network restructuring, it could be helpful to consider more extensive methodologies, such as McKinsey 7-S Model, ADKAR, and others, that elaborate on the above elements.

Action plan with change management activities

The action plan, called "workplan" is covered by CHM Framework. It includes the change management activities for the period from July 2022 to June 2023. Within its review we noted the following:

- The plan is insufficiently detailed. For example, a stocktaking process is mentioned among the change management activities, however, it is not described in detail. As a result, specific activities, timeframes, and responsible staff are not indicated.

- Some important activities are missing, e.g., re-assignment of new access and approval rights in the IT systems in line with staff members' new roles. In practice, delays in the project procurement occurred as the appropriate approvals could not have been received within the usual timeframes.

- Some of the planned activities appear to be inconsecutive. For example, development of Monitoring and Evaluation framework is scheduled for November-December 2022, while the change management activities were in place since July 2022.

Communication plan

Communication plan is an integral part of the planning process and should be developed in advance. We noticed that the restructuring-related communications have started in the early 2022. At the same time, the communication plan provided for our review covered only a limited period from October until December 2022. It is crucial to have a complete communication plan during the whole period of change to ensure its comprehensiveness and alignment with the change strategy.

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Recommendation Status: Open

Given that the UNIDO restructuring process is still ongoing, we suggest UNIDO's Management improve the related regulatory documents by performing the following steps:

a. Perform a mapping of the new priorities and identified areas for change to the new Secretariat structure and communicate the mapping results to all stakeholders for better engagement and understanding of the restructuring goal and rationale;
b. Update CHM Framework, including the update of the change management methodology by application of a more holistic CHM model and the update of the action plan by specifying its activities, adding missing initiatives, indicating responsible persons and performance indicators;
c. Develop a communication plan for FY 2023 indicating responsible staff and deadlines.

Management response: Agree.

The priorities for reform at UNIDO have been set by the Director-General. Additional efforts will be made by management on the directorate level to communicate the rationale for the reform and its priorities to all staff and stakeholders. These efforts will be complemented by the recently launched strategic planning exercise, which will provide more detailed strategic orientations and priorities in the core areas of UNIDO's service delivery.

B.1.2. Organizational restructuring: implementation

The staff rotation process during the restructuring requires improvement

Low

Recommendation

We recommend UNIDO's Management perform a comprehensive post-assessment of the workload and staff capacity as well as implement internal controls over the handover process

The 2022 Secretariat restructuring is aimed at achievement of the new strategic priorities defined by the Director General. It is crucial to assign people with relevant skills and competencies to contribute to the new UNIDO strategy and provide them with full understanding of their new roles, including their responsibilities and functions.

We noted that the staff rotation performed as a part of the restructuring included, inter alia, the staff capacity assessment and the handover process. Our observations regarding the efficiency of these processes are provided below.

Limited assessment of staff capacity

Within the restructuring, the staff members' capacity (work track record and CVs) was assessed only with respect to the newly created divisions. This assessment was performed via many interactions between staff members and the task force implementing the restructuring. At the same time, no methodology was developed for this assessment in terms of its scope and staff selection approach:

- **Scope.** The staff capacity assessment should include an analysis of how the relocated employees may contribute to the new UNIDO strategic priorities, what competencies will help them and who should supervise or mentor them in their new roles.
- **Staff selection approach.** The methodology for the staff capacity assessment should disclose the procedure of selecting staff members to be assessed. This procedure should allow to identify the staff members who best fit the positions they are being transferred to.

In addition, we understand that the staff capacity assessment for the existing divisions has not been performed since their mandate has remained the same. However, the number of people in some units has decreased, because selected team members were moved to the newly established units. Given that the workload of such teams has not been adjusted, it creates a risk of work overload, leading to reduced work efficiency and productivity as well as reduced staff motivation.

Control procedures over handover process are not established

During the handover process staff members were required to fill in knowledge transfer notes when handing over their work to their successors. We reviewed the note template, and we believe that it is sufficiently detailed and well-structured.

In practice, the handover process in many cases was performed without the use of knowledge transfer notes or any detailed discussions on the transferred projects or functions. As a result, some rotated employees were not properly briefed on their new functions and responsibilities. Such an approach may lead to a slowdown in operational processes and a decrease in the efficiency of projects delivery.

A. Financial audit | **B. Performance audit** | C. IT and Innovations

Taking into account that a second phase of the restructuring (the field network restructuring) is planned for FY 2023, the UNIDO's Management is encouraged to implement proper internal controls over the handover process.

Recommendation — Status: Open

We recommend UNIDO's Management perform the following activities:

a. Fully use existing procedures to perform a continuous post-assessment of the workload and capacity of all UNIDO staff members by defining scope of work for each position, existing and required skills and competencies, as follow-up measures to the implemented stocktaking exercise. Based on the assessment results, update, if necessary, the Learning and Engagement Plan (led by COR/LED) and assign necessary mandatory trainings to specific staff members;

b. Implement proper internal controls over the handover process within the upcoming restructuring of the field network.

Management response: Agree.

Following the stock-taking exercise implemented by ODG/CHM the follow-up assessment of the work-load of posts is an ongoing process, monitored by the responsible managers in the house, in close coordination with COR.

The new structure is now in place and we will not go through major adjustments due to the post-assessment. The above-mentioned ongoing procedures of stocktaking are in place and will reveal information on necessary adjustments.

An adaptation of the handover protocol is underway and upcoming handovers will continue to be carried out under the responsibility of line managers and, in case of conflict, by Heads of Departments and Managing Directors, and if needed facilitated by ODG/CHM.

B.1.3. Organizational restructuring: monitoring

Monitoring and evaluation process should be improved

Medium

Recommendation

We recommend aligning M&E Framework with other regulatory documents as well as developing a monitoring tool for the change management activities

According to the ToR, ODG/CHM is assigned to regularly monitor and report to the Director General on the results of the change management activities. The CHM Framework stipulates the ongoing monitoring over the change management activities as well as the development of a monitoring and evaluation framework with a list of indicators to be covered by it.

During the audit, we were provided with a draft of Monitoring and Evaluation (M&E) Framework. Based on its analysis, we noted the following:

- The monitoring indicators listed in the M&E Framework do not fully correlate with the indicators in the CHM Framework;
- No baseline data and targets have been set in the M&E Framework;
- Some of the restructuring objectives do not have any monitoring indicators. In particular, there are no indicators for the objective *"Ensure changes achieve desired outcome (increase service delivery, efficiency, and innovation)"*. The analysis of the restructuring objective achievement is crucial for understanding its effectiveness.

In addition, we noted that UNIDO does not have a monitoring tool accumulating the results of interactions with staff, survey results, and other change management activities. Absence of the monitoring tool may complicate performing future analysis of the restructuring and change management results.

Recommendation — Status: Open

We recommend UNIDO's Management the following:

a. Align M&E Framework with CHM Framework;

b. Complement M&E Framework with baseline data and targets for the indicators;

c. Develop a monitoring tool or a dashboard for the change management activities with appropriate performance indicators to be achieved.

Management response: Agree.

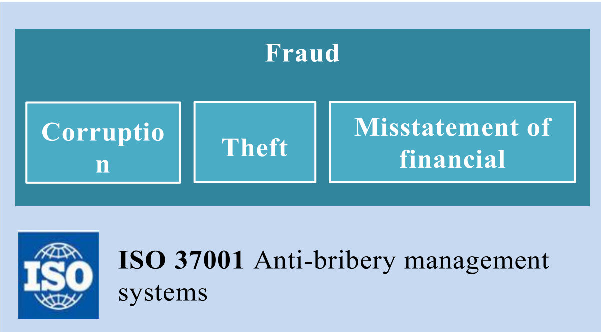
The CHM M&E framework will be progressively integrated into the overall UNIDO M&E framework, for which data on appropriate indicators will be collected and reported over time (according to the schedule set out in the M&E framework). This information will also be available in a management dashboard for wider use by UNIDO decision-makers.

B.2. Corruption and fraud

Background

Over the past decade, enforcement of the anti-fraud and anti-corruption provisions has experienced significant growth worldwide. As adherence to the highest ethical standards is central to the work of the United Nations system organizations, this issue deserves serious attention. Apart from substantial monetary losses, fraud has damaging effects on an organization's reputation, placing at risk the ability to implement programmes and projects effectively, establish partnerships and receive voluntary contributions.

Figure 9. Key elements of fraud



Effective fraud prevention, detection, and mitigation mechanisms play a key role in safeguarding organizations' interests against cases of corruption, misappropriation of assets and misrepresentation of accounts, which are three key elements of fraud (Figure 9). Anti-fraud measures play an important role in enhancing the accountability and effectiveness of the United Nations system and in promoting the appropriate oversight and the responsible use of resources. We decided to perform an analysis of these measures in order to evaluate their effectiveness and efficiency. Out of the three key elements of fraud, we focused mainly on corruption, as according to Association of Certified Fraud Examiners (ACFE) Report to the Nations 2022, the percentage of cases involving corruption is on the rise from 33 per cent in 2012 to 50 per cent[12] in 2022 throughout the world.

Audit approach

For the purposes of our analysis, we studied UNIDO's policies and procedures related to anti-corruption compliance in the following areas:

Procurement	Gifts and entertainment	Legal, consulting and marketing expenses
Charity and sponsorship	Vendor vetting process	Cooperation with state institutions and state companies
Payroll and benefits	Whistle-blowing hotline	Anti-corruption training for personnel

In addition, we performed a high-level review of the general ledger accounts to identify risk areas and tested selected transactions that, in our understanding, could fail to comply with anti-corruption requirements.

We made some positive observations in UNIDO regarding the existing anti-corruption measures. At the same time, we identified several opportunities for improvement.

Positive observations

Conflict of interest

We noted positive changes in UNIDO's regulation of conflict of interest, in particular:

- In 2020 the Organization adopted a policy on financial disclosure and declaration of interest (FDDI). Every year Ethics and Accountability Unit (EAU) launches the annual FDDI submission process, providing a mechanism to identify, mitigate, and manage the actual, perceived, or potential conflicts of interest arising from employees' activities, financial holdings, external income, personal and familial affiliations, and received gifts and honours.

[12] ACFE Report to the Nations 2022, https://legacy.acfe.com/report-to-the-nations/2022/.

A. Financial audit | **B. Performance audit** | C. IT and Innovations

- UNIDO has introduced a policy on exclusion from funding to specify the criteria and procedures to avoid suppliers associated with heightened reputational, financial, and operational risks and risk of bribery and corruption.

Investigation function

UNIDO has promulgated an investigation policy and introduced new investigation guidelines to take into account changes in the Organization and good practices in the United Nations system. The Organization has an investigation function with personnel having the right skills and authority to perform investigations in line with the existing guidelines and has established processes and protocols for communicating the results of such investigations. UNIDO has multiple channels for reporting fraud, corruption, and other misconduct with the possibility of reporting anonymously. When misconduct is substantiated, UNIDO's resolutions are provided in the annual Information Circular on UNIDO's response to misconduct, which is published on the intranet and is available to all employees.

Opportunities for improvement

Recommendations	Level of risk
B.2. Corruption and fraud	
B.2.1. Regulation of corruption risks requires improvement	High
B.2.2. Due diligence procedures for suppliers should be improved	Medium
B.2.3. Training activities on fraud and corruption require improvement	Medium
B.2.4. Effectiveness of whistle-blowing hotline is not regularly analysed	Low

B.2.1. Corruption and fraud

Regulation of corruption risks requires improvement

High

Recommendation

We recommend including regulatory norms in the following areas in the existing policies: cooperation with politically exposed persons, state institutions and state companies; presenting gifts; hospitality and entertainment

We have analysed UNIDO's policies and internal documents on fraud regulations, namely: Code of Ethical Conduct, Standards of Conduct for the International Civil Service, Policy on Fraud Awareness and Prevention, Policy on Financial Disclosure and Declaration of Interests, Accountability Framework, Policy on Exclusion from Funding, Staff Rules and Regulations, UNIDO Procurement Manual. We found that the existing documents did not provide detailed guidance relating to the detection, prevention and mitigation of corruption risks in the following areas, indicated in ISO 37001:2016 *Anti-bribery management systems*:

Cooperation with politically exposed persons, state institutions, and state companies

A politically exposed person is defined by the Financial Action Task Force (FATF) as an individual entrusted with a prominent public function, for example, heads of state, state ministers, diplomats, ambassadors, members of parliament, key people working within supreme and constitutional courts or high-level judicial bodies. Politically exposed persons also include close associates, such as the immediate family members and support employees. Because of their position, they are vulnerable to abuse for the purposes of corruption, money laundering, and, potentially, terrorist financing.

UNIDO often communicates with such persons, including within project implementation who might be exposed to risks of corruption, bribery, abuse of power, etc., especially in the developing countries, where UNIDO has the majority of projects. Given the above, it is important that UNIDO develops principles of communication and cooperation with politically exposed persons, state institutions, and state companies in order to mitigate corruption risks in this area and prevent potential reputational damage.

Internal policies on cooperation with politically exposed persons should cover:

- Procedures for the identification of politically exposed persons;
- Assessment of the level of risk associated with them;
- Requirements for an enhanced due diligence;

- Ongoing monitoring of the relationship with politically exposed persons; and
- Senior management approvals required to establishment such relationship.

Gifts

Gifts management is regulated in UNIDO by the Code of Ethical Conduct, Standards of Conduct for the International Civil Service, Policy on Fraud Awareness and Prevention, Policy on Financial Disclosure and Declaration of Interests, Accountability Framework, Policy on Exclusion from Funding, Staff Rules and Regulations, UNIDO Procurement Manual. The above documents include the value limits for gifts received, approval process and other provisions in respect of giving and receiving gifts.

When talking about presenting gifts, the following issues should be considered:

- presenting gifts can be perceived as an intention to influence the receiver's decisions, which especially relates to public officials; and
- presenting gifts may be sensitive in terms of corruption risks and associated reputational risk in international relations.

A detailed regulation of this area is important in order to mitigate the above risks. For example, value limits for gifts presented can be introduced, and a guidance provided as to what types of gifts are prohibited (e.g., luxury items, such as watches, cars, gadgets, admission tickets, gift cards and certificates).

Additionally, we noticed that no UNIDO regulatory documents provide for keeping a register of gifts received or presented, which may result in insufficient controls or disputes with the personnel. We suggest updating the internal policy with requirements to keep a register of gifts received and presented by employees. The policy must detail the procedure for filling in the register, determine its owner responsible for regular update and confidentiality of the register.

Another positive observation we would like to note is that in December 2022 the UNIDO Ethics and Accountability Unit (EAU) released an email with holiday season gift advice, recommending that personnel refrain from making or receiving gifts from counterparties. Providing such advice is an example of a best practice application in this area.

Recommendation Status: Open

In order to strengthen controls over the corruption-exposed operations and minimize corruption risks, we recommend that UNIDO's Management consider updating the existing policies with a guidance on the detection, prevention, and mitigation of corruption risks in the following areas:

- Cooperation with politically exposed persons, state institutions, and state companies;
- Gifts (supplementing respective regulatory document with provisions regulating presenting gifts and with the requirement to keep a register of declared gifts received and presented).

In addition, we suggest including in the regulatory documents respective controls over the implementation of the above guidance.

Management response: **Agree.**

We took note of the recommendation for UNIDO to consider introducing and/or reinforcing, in existing relevant policies, guidance aiming at further regulating areas exposed to corruption risks such as cooperation with State institutions, politically exposed persons and state companies and gifts. UNIDO is keen in reinforcing its ethical framework which includes strict anti-corruption measures, from detection, prevention and mitigation of risks.

A. Financial audit | **B. Performance audit** | C. IT and Innovations

B.2.2. Corruption and fraud

Due diligence procedures for suppliers should be improved

Medium

Recommendation

We recommend strengthening the internal controls over contractor performance evaluation, developing a blacklist of suppliers, and introducing a cost-effective due diligence procedure for purchases below €2,000

We analysed the provisions of the Procurement Manual regulating the selection of bidders and relations with contractors, as well as the application of those provisions in practice. In general, we noted that all related processes are sufficiently developed and followed by UNIDO's employees. At the same time, we would like to note several areas for improvement.

Purchases above €2,000

According to the Procurement Manual, the Procurement Official and the Project Manager shall jointly prepare a contractor performance evaluation before the release of the final payment under a purchase order/contract. This evaluation allows to identify suppliers providing poor quality service, include them into a blacklist and avoid ordering their services in the future. If the contractor performance is not evaluated and documented, there is a risk that the suppliers providing unsatisfactory services could be selected for future procurement process.

During the audit, we identified some cases where UNIDO did not perform a contractor performance evaluation before closing the contract. One of the possible explanations could be the manual processing of the evaluation questionnaires. However, we were informed that an IT tool to automate this process will be launched in May 2023, embedding the questionnaires into the SRM system and providing automatic controls, not allowing to close the contract until the evaluation is complete.

In addition, UNIDO currently does not have a blacklist of mala fide contractors, which we highly encourage to develop, assigning an owner to this document and setting requirements for its regular update and constant use in the bidder selection procedures.

Purchases under €2,000

During our analysis, we identified that UNIDO's expenditures include a lot of transactions below €2,000, which cumulatively amount to over €10 million in FY 2022. Such transactions are qualified by UNIDO as straight expenditure, which does not require counterparty due diligence, preparing evidence of service provision (such as reports, photos, etc.), comparison of market prices, commercial evaluation of the offer, and issuance of a formal contract.

In order to avoid unnecessary economic and reputational losses, UNIDO needs a better understanding of the background of the potential suppliers. For example, if suppliers are not checked for connection with governments or public officials, it may damage UNIDO's reputation by raising doubts about its independence, impartiality, and integrity.

Risks associated with transactions for amounts below €2,000 could be covered by a simplified cost-effective due diligence process, finding the right balance between the cost of the procedure and the amount of transaction, for example, by obtaining organizational documents to identify the counterparty and verify whether it is a legitimate business entity, as well as checking the counterparty against the blacklist of suppliers.

Recommendation — Status: Open

We recommend considering the following steps to improve due diligence of suppliers:

a. Strengthen the internal controls over the contractor performance evaluation before the release of the final payment under a contract;
b. Develop and regularly update the blacklist of suppliers;
c. Introduce a simplified cost-effective due diligence procedure for transactions below €2,000 to identify the counterparty and verify whether it is a legitimate business entity.

Management response: Agree.

a. strengthening internal controls over the contractor performance evaluation before release of the final payment: the automated contractor's performance evaluation function in SAP is ready for release with related guidance notes to be circulated within UNIDO and uploaded on the COR/PRO intranet page. This function will introduce an additional obligatory step for POs issued under the centralized procurement modality by way of which an automated evaluation will have to be triggered once the PO is fully confirmed. Once completed it will be automatically stored in the business workspace of the PO. In addition, the new function will allow to generate reporting encompassing all the evaluations for a given supplier and will be available for any future awards that may be considered for a given supplier. The detailed presentation of the new function may be shared with the EA upon request.

A. Financial audit | **B. Performance audit** | C. IT and Innovations

b. develop and regularly update the blacklist of suppliers: the blacklisting procedures will be developed in accordance with the existing UNIDO Policy on exclusion from funding (ref DGB/2021/15).

c. introduce a simplified cost-effective due diligence procedure for transactions below EUR 2,000: a simplified due diligence procedure will be considered, in accordance with the above mentioned UNIDO policy on Exclusion from Funding.

B.2.3. Corruption and fraud

Training activities on fraud and corruption require improvement

Medium

Recommendation

We recommend introducing mandatory regular anti-fraud and anti-corruption trainings for all employees, making sure the contents of trainings are regularly updated, attendance monitored, and disciplinary measures taken to stimulate employees to effectively attend the trainings

ISO 37001:2016 *Anti-bribery management systems* requires to provide anti-bribery training to personnel on a regular basis to ensure that the personnel understand the anti-bribery policy, the bribery risks that the Organization faces, and the necessary preventive and reporting actions they need to take in relation to any bribery risk or suspected bribery.

We acknowledge that UNIDO provides trainings to personnel on fraud and corruption, whereby it seeks to convey the Organization's commitment to high ethical standards and prevention of fraud and corruption. We looked at the training content and procedure of its conduct and would like to draw attention to the following:

Attendance at fraud trainings and events

We understand that currently UNIDO has a mandatory training on fraud only for newcomers. However, despite the training being mandatory, attendance is not monitored, and no disciplinary measures are implemented for failure to attend. Moreover, staff members and ISA holders who have worked in the Organization for over a year are not required to undertake any updated fraud-related trainings.

UNIDO holds an annual Fraud Awareness Week for all employees; however, participation is not mandatory and is not stimulated.

Anti-corruption, anti-bribery and fraud-related trainings are optional

Corruption topic is not specifically covered by the fraud-related training or Fraud Awareness Week. We noted that UNIDO had introduced an optional online training on preventing fraud and corruption at the United Nations, accessible through the intranet and aiming to increase the capacity of personnel to recognize fraud and corruption and to learn practical actions that personnel can take to combat them. However, this training is optional.

As a result, UNIDO's employees may not be fully aware about what constitutes corruption and bribery and what disciplinary measures can be taken in this respect. They may be unable to timely identify the warning signs and red flags of corruption and bribery, which may result in significant reputational damage to UNIDO. Dedicated anti-corruption training could help employees to better identify suspicious activities and feel empowered to act against potential fraud.

Recommendation — Status: Open

We recommend considering the following steps to improve fraud and corruption trainings:

a. Taking into account the upgrade in the technical platform hosting the Anti-Fraud Training, it is important to emphasize the need for monitoring of attendance. In particular, the Management is encouraged to perform the proper analysis of those attending the training with further follow up and respective measures to stimulate employees to attend the trainings regarding fraud and corruption;

b. Introduce mandatory and regular anti-fraud and anti-corruption trainings for all employees (not only for newcomers);

c. Place a link to anti-fraud training at the existing Ethics area on the intranet and communicate to staff where it can be found and how its content could be used in their day-to-day work.

Management response: Agree.

The recommendation has been partially implemented, in particular:

- A recent upgrade in the technical platform hosting the Anti-Fraud Training solved some of the challenges on reporting and monitoring of the current fraud awareness training (under Ethics).
- Enhanced workforce obligations regarding training, periodicity, potential sanctions for non-compliance will be considered in the next update of the Policy on Fraud Awareness and Prevention (currently UNIDO/DGB/(M).94.Rev.1)

B.2.4. Corruption and fraud

Effectiveness of whistle-blowing hotline is not regularly analysed

Low

Recommendation

We recommend performing regular surveys regarding whistle-blowing hotline satisfaction and trust level among employees and ISA holders

UNIDO has a whistle-blowing system in place that consists of multiple channels for reporting fraud, corruption, and other misconduct, with the possibility of anonymous reporting. The Organization ensures that the reported cases related to fraud, corruption and bribery are registered and communicated to the Oversight Advisory Committee in the form of biannual reports. In addition, the Organization issues annual Information Circulars to inform employees on UNIDO's response to misconduct.

UNIDO performed a review of the investigation function in FY 2020 and a review of the ethics function in FY 2021, reporting the results to the Director General and bringing it to the attention of the Oversight Advisory Committee.

During audit interviews, we ascertained that employees were able to name several ways to communicate and report their suspicions to the Management.

At the same time, we found that in FY 2022, UNIDO did not conduct regular surveys regarding whistle-blowing hotline satisfaction and trust level among employees and ISA holders. In this regard, we recommend using personnel surveys as one of the instruments to assess the effectiveness of the hotline on a more regular basis in order to enhance whistle-blowing hotline satisfaction and trust level and ensure that all cases related to fraud, corruption and bribery are reported and investigated accordingly.

Recommendation	Status: Open
We recommend performing the assessment of the whistle-blowing hotline effectiveness by introducing regular surveys regarding the whistle-blowing hotline satisfaction and trust level among employees and ISA holders at least every two to three years.	

Management response: Agree.

The recommendation is acceptable from the EAU perspective as it could contribute to the implementation of the Policy for the "Protection against retaliation for reporting misconduct or cooperating with audits or investigations" UNIDO/DGB/(M).116 and possibly reinforce the confidence of potential whistle- blowers and by- standers to report wrongdoing and misconduct by diminishing the fear from retaliation.

A review of the effectiveness of the oversight hotline will also be performed as part of the planned external quality assessment of the investigation function in 2023. EIO in cooperation with COR/HRS and COR/EAU will continue to undertake outreach and communication activities to raise awareness on the oversight hotline.

B.3. Risk management

Background

Enterprise Risk Management (ERM) is an essential element of good organizational governance and accountability. As a systematic and holistic approach to risk management, it allows UNIDO to progress while managing the effects of uncertainty on the achievement of its objectives. ERM ensures foresight and risk-informed decision-making across all levels of the Organization, thereby capturing opportunities and maximizing gains while avoiding unnecessary losses in the pursuit of its mission. Therefore, it is so important for UNIDO to gradually develop its risk management system and, when the desired maturity level is reached, to ensure its continuous maintenance.

Audit approach

We performed a maturity assessment of both Enterprise Risk Management (ERM) and Project Risk Management (PRM) in UNIDO with the aim to identify strengths and highlight opportunities for improvement, as well as form an advisable roadmap to further strengthen ERM and PRM.

The results of the ERM and PRM maturity assessment (see Figures 10 and 11 below) indicate that UNIDO in many aspects is at the beginning of the journey. Activities aimed at risk management system development in UNIDO have been disrupted in the recent years by different external and internal factors, such as the COVID-19 pandemic, change of the Director General and the 2022 UNIDO Secretariat restructuring, which resulted in a change of focus for all staff members and interfered with transmitting "tone at the top" with respect to change management.

Figure 10. ERM assessment

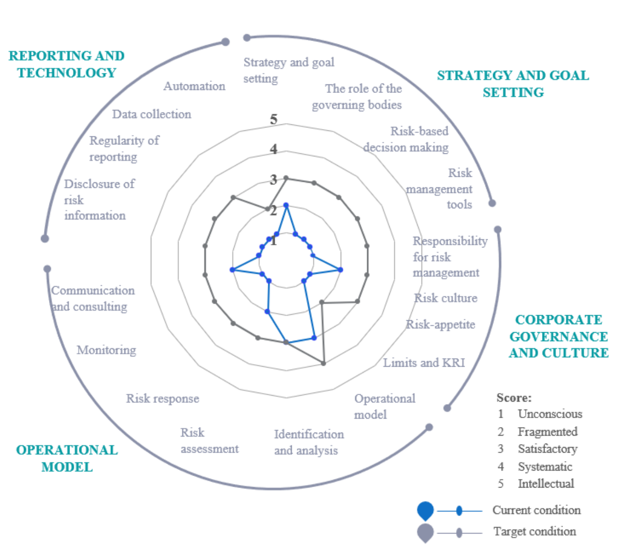
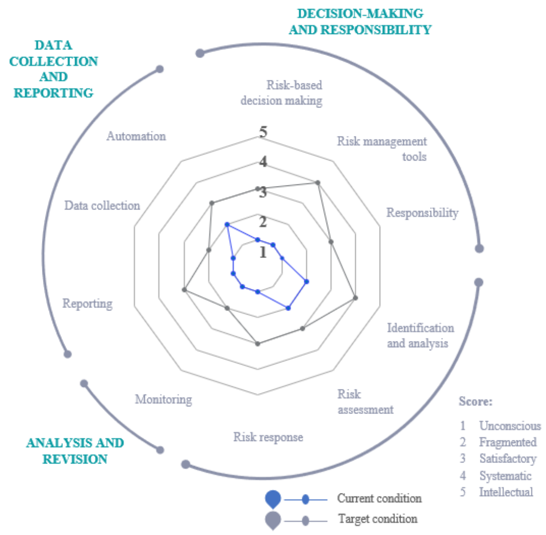


Figure 11. PRM assessment



Despite the above challenges, the responsible team is gradually improving risk management practices. For example, we identified the following **strengths of UNIDO's risk management system**:

- A strong and dedicated risk management team with solid knowledge in the risk management area (the principles of COSO's enterprise risk management framework) and understanding of the importance of building an effective ERM;
- A dedicated network of results and risk focal points (RRFP) communicating and consulting personnel across UNIDO regarding risks;
- A mandatory training course regarding the ERM approach.

Currently, the team is working on the improvement of the risk management system, including risk surveys and update of the risk register.

Along with this, in addition to activities at the operational management level, it is also extremely important for the further ERM and PRM development to receive feedback from the Member States and donors, since they are equally responsible for the risks UNIDO faces. At the same time, in the recent years the Director General's reports on General Risk Management have not been discussed in detail at the sessions of Programme and Budget Committee or Industrial Development Board, although inputs from the Member States could have been of great value.

Opportunities for improvement

Within our analysis we identified the following opportunities for improvement:

Recommendations	Level of risk
B.3. Risk management	
B.3.1. The potential of "tone at the top" as the basis of ERM is not fully realized	**High**
B.3.2. The ERM Policy contains outdated information or requirements not used in practice	**Medium**
B.3.3. Structure of the Consolidated Risk Register requires improvement	**Medium**
B.3.4. No specific IT tools for ERM are in place	**Low**
B.3.5. Risk management matters might not be considered in decision-making on projects	**Medium**
B.3.6. Lack of a unified and systematic approach to PRM	**Medium**

A. Financial audit | **B. Performance audit** | C. IT and Innovations

We would like to draw the attention of the Member States to the fact that building a strong and effective risk management system in the Organization may require additional resources, including financial resources, otherwise, considering the limited funds, UNIDO together with the Member States will have to accept the existing risks and their potential consequences.

B.3.1. Enterprise risk management

The potential of "tone at the top" as the basis of ERM is not fully realized

High

Recommendation

We recommend setting a strong "tone at the top" with respect to risk management, starting with developing a detailed roadmap for this purpose

Based on the performed analysis of the ERM system, we noted that the risk culture fostered by the "tone at the top" is not sufficient. In particular:

- UNIDO's Management communications about the importance of the ERM system in the Organization are performed on an ad-hoc basis and are not systematic;
- UNIDO has developed a mandatory training course regarding the ERM approach, but its completion is not monitored, and no administrative measures are taken if an employee does not pass the course;
- There is no regular risk reporting to timely identify significant risks deviations;
- There is no responsible risk manager (comparable to the earlier existing role of Special Advisor) with KPIs tied to the ERM system implementation. Established Results and Risk Focal Points responsible for the risk-management process do not perform their functions in full after the announcement of the organizational restructuring;
- UNIDO's governing bodies only discuss the enterprise risk management strategy at a high-level and do not consider the key risks (e.g., TOP-10 risks) and mitigation actions in their respect.

Recommendation	Status: Open
We suggest that UNIDO's Management develop a road map with actions aimed at setting a strong "tone at the top", based on the specific recommendations provided by the External Auditor in a separate detailed report on UNIDO's risk management maturity assessment.	

Management response: Agree.

The pace of progress towards and ultimately full achievement of the proposed recommendations (above and in the separate report) will depend on availability of financial and human resources

A. Financial audit | **B. Performance audit** | C. IT and Innovations

B.3.2. Enterprise risk management

The ERM Policy contains outdated information or requirements not used in practice

Medium

Recommendation

We suggest updating the ERM Policy in accordance with the new Secretariat structure as well as a gap analysis between ERM Policy requirements and actual business processes

The regulations and rules of UNIDO's ERM Policy are not fully complied with, in particular:

- The risk register template is not used in practice, each project manager decides individually on the most convenient format of risks identification and their further monitoring. The Consolidated Risk Register (CRR) is prepared in a completely different manner from the manner described in the ERM policy;
- There is no systematic approach and deadlines in place for updating the risk registers, both at the enterprise (consolidated) and the project level. The first CRR was created in 2018 based on the Institutional risk assessment survey and afterwards revised based on consultations with the senior management in 2021; however, it was not approved and taken into account while preparing the MTPF 2022–2025 and Programme and budgets 2024–2025. Currently, UNIDO is working on updating the CRR and intends to consider it when preparing the MTPF 2026–2030. Risk management should be an integral part of the Organization's strategic and operational planning and monitoring processes, and the ERM Policy should contain a requirement for risk management integration;
- The level of risk appetite is not defined (in progress since 2019);
- The approach to risk mitigation is not selected (avoidance, transfer, acceptance, or mitigation). Mitigation actions for risks at the organizational level are not determined, although they are supposed to be indicated in the CRR;
- There is no clear step-by-step guidance on how to implement the ERM Policy and integrate it into operational processes (including the implementation of UNIDO's projects);
- The ERM Policy requires an update in accordance with the organizational changes.

Recommendation — Status: Open

We recommend that UNIDO's Management:

a. Update the ERM Policy based on the specific recommendations provided by the External Auditor in a separate detailed report on UNIDO risk management maturity assessment;
b. Develop a Risk Appetite Statement (for more information, please use COSO Guidance "Risk Appetite – critical to success", May 2020).

Management response: **Agree.** Agreed and under implementation.

B.3.3. Enterprise risk management

Structure of the Consolidated Risk Register requires improvement

Medium

Recommendation

We recommend performing a risk assessment survey and revising the CRR accordingly

The Consolidated Risk Register is a tool for accumulating all the risks of the Organization. It is also supposed to contain information about the results of risk analysis and mitigation actions. Currently, the CRR is not taken into account when revising UNIDO's strategy, setting new goals, and preparing Programme and budgets. Its practical use also raises some concerns, e.g., the RRFP team does not use the CRR in practice and is not informed about its application by UNIDO staff members.

With respect to the current version of the CRR, we found the following:

- **The list of risks in the CRR may be incomplete**. For example, at the interim audit stage, UNIDO's Management stressed the fact that there were too many too small projects in the project portfolio, while most big projects were coming to an end, both in terms of the timeline and in terms of funding. However, it was not mentioned in the CRR.

  The Director General's Risk Management Priorities for 2021, highlighting the strategic risks of the Organization, also are not reflected in the CRR. For instance, the DG's Risk Management Priorities include such a risk as "Risk of misalignment of vision and efforts: a specialized agency within the UN system"; however, we could not find it in the CRR.

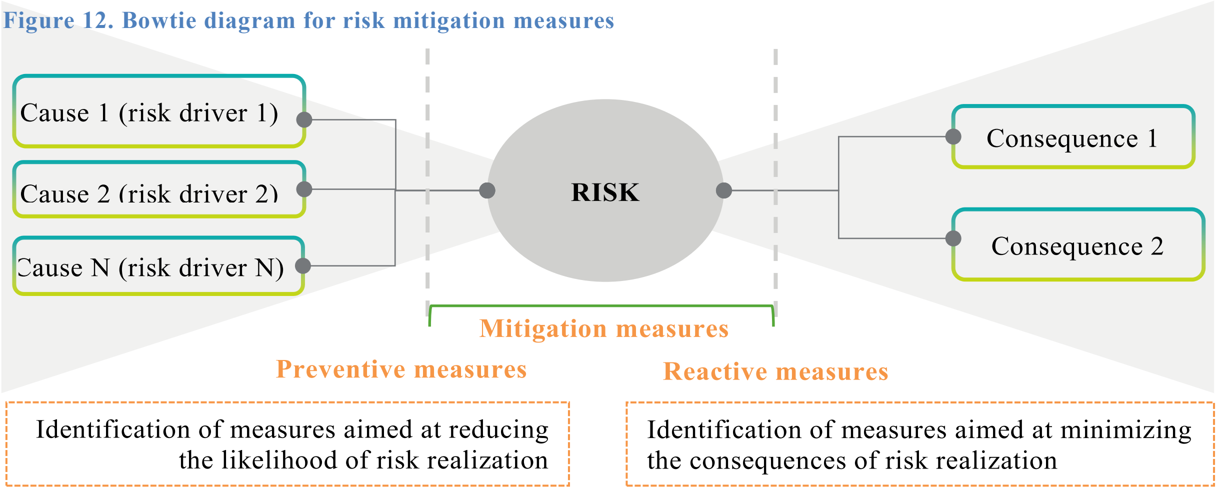
- **Not all mitigation measures are determined and not for all risks.** According to ISO 31000, each risk has its causes (risk drivers) and consequences. To manage the risks, the Organization should identify:

  (1) Preventive measures, aimed at eliminating/minimizing the risk drivers; and

  (2) Reactive measures, aimed at minimizing the consequences of risk crystallization.

  Currently, UNIDO identifies only preventive measures for the top-10 risk drivers. To effectively manage the risks, UNIDO should develop both preventive and reactive measures for all risks in the CRR. To ensure the implementation of the identified measures, responsible persons should be assigned, deadlines set, and effectiveness assessed.

Figure 12. Bowtie diagram for risk mitigation measures



- **Risk categories are not homogeneous.** Currently, risks are categorized by decision-making level (strategic vs. tactical) and by nature (financial, reputational, etc.). UNIDO's approach to risk classification is not clear. For example, if a risk is both strategic by decision-making level and financial by its nature, it is not obvious under which existing UNIDO risk category it should fall.

- **No periodic Risk Assessment Survey is conducted.** UNIDO Management, however, has the intention to conduct such survey on a yearly basis to regularly update the risk register and gauge the effectiveness of containment measures. Therefore, we expect that an action plan in this regard will be developed soon.

Recommendation	Status: Open

We recommend that UNIDO's Management:

a. Develop an action plan for conducting a regular risk assessment survey, including a list of interviewees, responsible persons, and deadlines;
b. Conduct a regular risk assessment survey based on the established action plan;
c. Revise the CRR based on the risk assessment survey results and recommendations provided by the External Auditor in a separate detailed report on UNIDO's risk management maturity assessment.

Management response: Agree.

The pace of progress towards and ultimately full achievement of the proposed recommendations will depend on availability of financial and human resources.

A. Financial audit | **B. Performance audit** | C. IT and Innovations

B.3.4. Enterprise risk management

No specific IT tools for ERM are in place

Low

Recommendation

We suggest developing a plan for implementing risk management IT tools

At the moment, UNIDO uses an Excel working document and manual procedures to collect, assess, and store information on UNIDO risks; no IT systems or tools are used for the ERM monitoring and reporting for the Organization as a whole.

The implementation of an IT risk management tool would increase the efficiency of the ERM system. Well-designed information technology system and tools can facilitate integration of the ERM into UNIDO's key operations, as well as capture, record, consolidate, and monitor the key risks throughout the Organization. The best practice is to integrate ERM with other systems in the organization to streamline processes.

UNIDO has initiated a search for available IT solutions to monitor and overview the existing risks in the Organization; however, acquiring an IT solution would require certain financial investments, which are not immediately available due to the limited resources of the Organization.

We encourage UNIDO to start a dialogue with other UN or non-government organizations to exchange experience and practices in the application of risk management tools, including IT tools, in order to find the most suitable and cost-effective solution. It is possible that such organizations use software or automated solutions developed in-house and they could share their practices and insights with UNIDO. For readily available software solutions, preferential terms could be potentially negotiated with the providers.

We understand that, as a rule, the introduction of a new tool requires additional labour and financial costs, so this recommendation can be implemented only if additional funds are allocated.

Recommendation	Status: Open
We suggest that UNIDO's Management develop a plan for IT tools implementation for risk assessment, consolidation, verification, and management, including responsible persons and deadlines.	

Management response: Agree.

The achievement of the proposed recommendation crucially depends on availability of additional financial resources.

B.3.5. Project risk management

Risk management matters might not be considered in decision-making on projects

Medium

Recommendation

We recommend introducing risk-based decision-making at all stages of project implementation

UNIDO realizes its mandate primarily through the implementation of projects, which often are complex, innovative, and aim to implement new technologies or ways of doing things that have never been applied before in a particular region. Introduction of new practices is always risk-bearing and, thus, requires special attention and methodologies to identify risks and applicable risk management strategies, especially at the project development stage. An insufficient risk assessment at the beginning of the project may result in a failure to achieve the results and the ultimately expected impact of the project.

During the assessment of several UNIDO's projects, we identified the following weak spots in project risk management:

- **Project relevance is not properly assessed.** One of the projects in China dedicated to the HCFC phase-out management plan in the refrigeration and air conditioning sector (Stage II is currently being implemented under Project 140386) is focused on the implementation of a technology that does not have a relevant market and, thus, cannot be put in use by the moment of project finalization. It is indicative of an inefficient risk management system on the project level and the necessity to assess the relevance of the project in the implementation country (determine whether the product created within the project will be in demand and what to do if there is no demand).

- **Significant risks and fundamental industry issues are not addressed by the project.** Under Project 180318 *"Global Eco-Industrial Parks Programme"* implemented in Peru, the objective is to demonstrate the viability and benefits of eco-industrial parks. At the same time, there is a risk that the parks will not be able to attract residents (companies) which raises concerns about the relevance of such eco-industrial parks, their future existence and development. However, attracting residents is out of the project scope, and there are no related mitigation or contingency plans in this respect.

A. Financial audit | **B. Performance audit** | C. IT and Innovations

Recommendation	Status: Open

We suggest that UNIDO's Management introduce risk-based decision-making at all stages of project implementation, in particular, by updating the new TC project document "Administrative and Operational Guidelines for the Life Cycle of Development Cooperation Programmes and Projects" (DCGs) with the following requirements:

a. Use a risk-based approach when making decisions at the project development stage and appropriately record it in the Service Summary Sheet, Inception Report, or other relevant project documents;

b. Review risks upon completion of each project stage and provide the results in progress reports or other project documents.

Management response: Agree.

The pace of progress towards and ultimately full achievement of the proposed recommendations will depend on availability of financial/human resources.

B.3.6. Project risk management

Lack of a unified and systematic approach to PRM

Medium

Recommendation

We recommend implementing a unified systematic approach to project risk management at the organizational level

As part of the FY 2022 performance audit, we analysed the implementation of selected projects in Peru, in particular, in terms of the project risk assessment practices applied by the project teams, and identified several weak spots in the applied approach to the project risk management:

- **The project risk assessment methodology does not take into account all factors affecting the risk level**. For example, risk analysis under Project 150061 *"Sustainable Industrial Zones"* in Peru takes into account only the risk impact on the project but does not consider the probability of the risks. The project team uses their personal judgement when assessing the risks levels. At the same time, the currently applicable Guidelines on Technical Cooperation Programmes and Projects (the TC Guidelines) identify risk analysis as *"the process of quantifying the probability and expected impacts for identified risks"*. In this regard, we recommend providing project managers with the risk analysis methodology that would reflect the requirements of the TC Guidelines and other internal documents, where applicable.

- **Mitigation and contingency plans do not always correlate with the specific project activities.** For example, Project 150061 *"Sustainable Industrial Zones"* in Peru does not have a matrix connecting mitigation actions and outputs/activities of the project. Contingency plans are developed only for selected outputs. As a result, it is difficult to monitor risk mitigation actions and the project manager's work with the risks on the project.

Recommendation	Status: Open

We recommend that UNIDO's Management implement a unified systematic approach to project risk management starting with developing the minimal risk management guidelines applicable to all projects. It should be noted that if a project is subject to requirements of the funding agreements, they should not override the internal guidelines.

Management response: Agree.

Agreed, and under implementation.

A. Financial audit	B. Performance audit	C. IT and Innovations

C. Information technology (IT) and Innovations

Key recommendations:

Recommendations	Level of risk
C.1. Information technology general controls (ITGC)	
C.1.1. ITGC. SAP privileged account management	**Critical**
C.1.2. ITGC. Privileged access rights within the change management process	**Critical**
C.1.3. ITGC. Segregation of duties among business users	**High**
C.1.4. ITGC. Security settings in SAP	**High**
C.1.5. ITGC. Removing access rights from dismissed/resigned employees	**Medium**
C.1.6. ITGC. Monitoring of SAP automated jobs	**Low**
C.1.7. ITGC. Segregation of duties in the IT function *(remediated)*	**Critical**

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;
- SAP SRM.

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

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

Given that ITGC were assessed in the previous years, the External Auditor specifically assessed remediation of the prior year findings for FY 2020–2021 along with testing IT general controls within the defined audit scope.

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).

A. Financial audit | B. Performance audit | C. IT and Innovations

As a result of our evaluation and validation of IT general controls, and considering the conclusion reached in FY2021, our overall opinion is that the internal controls over IT require improvement.

Nevertheless, we see that UNIDO 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 the areas with higher level of risk, including paying close attention to the development of an effective control design and the implementation of monitoring procedures.

We would like to acknowledge UNIDO's Management efforts taken to remediate the control deficiencies identified in FY 2021. The remediation of control deficiencies requires allocation of specific resources, therefore it is important to track the progress, rather than identify the issue. To stay focused on the progress, we presented issue status for previous year's findings in the following way:

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

Partially remediated. Management addressed the issue, however, despite the progress, the conclusion remains unchanged.

Remediated. The work performed eliminated the identified control deficiency or introduced compensation controls.

C.1.1. ITGC

SAP privileged account management

Critical permissions are not properly restricted

Critical

Recommendation

We recommend UNIDO's Management reconsider the current SAP authorization concept and SAP roles

During the FY 2022 audit, we tested SAP privileged account management based on extended definition of which access rights can be considered privileged, and, thus, not intended to be provided to an extensive number of users apart from those who need it to perform their job duties. Generally, the access would be considered privileged if it provides the user with a right to perform the following activities:

- User management (creation, amendment, disabling user accounts and access rights);
- Access to change management (access for deployment of changes);
- Change system settings (schedules of automated jobs, etc.).

Since we noted some progress in remediation of the issues identified in FY 2020 and FY 2021 and given the fact that we consider extended definition of privileged accounts during the current year audit, we suggest deeming remediated issues C1.2. ITGC 2020 and C.1.2. ITGC.2021 and continue tracking the status of remediation within extended observation noted in FY 2022. In our review of privileged access, we noted the following:

Privileged access in the SAP database management system (previously noted in FY 2021, remediated)

During the FY 2021 audit, we noted three non-personified accounts at the SAP ERP and SAP SRM database level (SUPERDBA[13] account in ERP and SRM, SAPPPE1 account in ERP and SAPPM1 account in SRM). All these accounts are granted with an administrative (privileged) authority. We performed an inquiry of the Management and confirmed that all those accounts have appointed technical owners, and responsibilities for accounts' maintenance are clearly defined (accounts' credentials are known by SAP Basis administrator and System administrator). Although privileged accounts are non-personified, we concluded that access to them is properly restricted, and their usage poses limited risk of unauthorized access to SAP database management system.

We noted that the procedure for user administration and usage of SAP Service accounts (SOP SAP Authorization Concept) is currently under review.

Privileged access through standard SAP privileged profiles SAP_ALL, SAP_NEW (previously noted in FY 2021, partially remediated)

Following our latest review in FY 2021, we found that Management intended to reduce the number of accounts with privileged access assigned through standard SAP profiles by disabling account used by a third-party provider (SAPSUPPORT, A Dialog user[14] type) and providing access to it upon request for a defined period of time. However, we

[13] Database system administrator in SAP systems.

[14] A Dialog user is used for all logon types by precisely one person. These users are used for carrying out standard transactions.

noted that access to this account remained active in FY 2022 and was disabled when reminded by the External Auditor in November 2022. The observation is valid for both SAP ERP and SAP SRM.

Access to the standard emergency account is also not blocked (DDIC user[15] account, S Service user type[16]). This could make it possible for anonymous users to use such accounts for single or multiple logons. We noted that Management implemented a biannual monitoring procedure to analyse the usage of the DDIC user account. We reviewed the results of the procedure performed in July 2022 and concluded that it requires improvement in order to effectively minimize the risk of unauthorized access under the DDIC account. Currently, the monitoring results are not documented: it is not clear who performed the monitoring, at what date and what conclusion was reached (whether only authorized access by DDIC took place or follow-up was required).

Privileged access in SAP defined by roles (new)

In the FY 2022 audit, we also reviewed the list of accounts with privileged access rights defined by roles granted to users. Privileged access considered was as follows:

- Access to all SAP tables (ability to update SAP standard or customized tables);
- Access to execute all SAP programs (ability to execute all programs regardless the programs are assigned authorization groups or not);
- SAP user management;
- Access to manage automatic jobs in SAP systems.

Such access would typically be granted only to IT staff to perform their job duties. However, we noted that currently such access is also granted to an excessive number of users from business departments, and there is no rationale behind it. The observation is valid for both SAP ERP and SAP SRM.

We understand that the observation is mainly related to definition of user roles in SAP systems (privileged access rights being part of current SAP roles). We would like to highlight the effort taken by Management during the course of audit: a SAP specialist was hired in FY 2023 to support the review of the current role list, and SAP Application Role Matrix is reviewed and updated as needed.

Privileged access through non-personified account in SAP (new)

We noted one privileged non-personified account (PERSONNELACT) with A Dialog user type (allows to login into SAP under such accounts if credentials are known) both in SAP ERP and SAP SRM. The account has a number of privileged access rights, e.g.:

- Access to all SAP tables (ability to update SAP standard or customized tables);
- Access to execute all SAP programs (ability to execute all programs regardless the programs are assigned authorization groups or not);
- SAP user management;
- Access to manage automatic jobs in SAP systems;
- Change system settings (access to changing the standard system settings using different transaction codes);
- Access to transfer transports (deploy changes) in SAP systems.

We noted that the account was created by a former SAP Basis administrator and currently there is no clear understanding whether it is still required for SAP support and administration purposes. Management has already taken action to investigate where the account is used.

Risk

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

[15] DDIC user – Data Dictionary (administrative super user in SAP).

[16] This user is used for background processing, communication within a system. It is available to an anonymous, larger group of users and should only be assigned very restricted authorizations.

Recommendation — **Status: Partially remediated**

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

a. Perform a review of assess rights granted to business users to ensure that access is provided on the need-to-know and least-privilege principles and that it was properly authorized. We also recommend re-assessing access rights granted by default; this might require a review of the existing role matrix;

b. Once excessive access rights are reviewed and removed where applicable, establish a regular access review procedure to ensure proper access management;

c. When monitoring procedures are implemented, ensure that there is clear evidence of the procedures performed: who and when performed the procedure, what conclusions were made. In addition, follow-up and corrective actions performed (if required) should be documented;

d. Ensure that the Organization authorized all activities performed under accounts used by external parties; this can be achieved through a review of activities performed under such accounts (automated or regular manual procedure).

Management response: Agree.

Significant progress has been made since the last observations to address this finding and efforts will be made to fully remedy the recommendation during 2023.

C.1.2. ITGC

Privileged access rights within the change management process

Critical

Recommendation

We recommend reconsidering SAP privileged account management within the change management process

Direct table changes in SAP systems (previously noted in FY 2021, remediated)

When reviewing the change management process, we noted the following improvements since the FY 2021 audit:

- The number of direct changes in SAP tables has significantly decreased after the introduction of custom software that makes certain direct table changes unnecessary;
- Unavoidable direct table changes are made through a formalized process (change requests approved by the Change Manager).

We tested selected direct tables changes deployed since introduction of the updated SOP IT Change and Release Management Procedure in November 2022 and noted that change requests were created and formally approved prior to the deployment of changes into SAP.

Privileges for Transport and Debugging (previously noted in FY 2021, not remediated)

We analysed SAP privileged access rights related to change management and noted a number of users who do not require such access to perform their job duties. Provision of such access to users poses additional risks of unauthorized changes:

- Access to the transport transfer to the SAP production environment:
  - 58 A Dialog type users accounts in SAP ERP (including nine accounts of Application and Web Development team, nine accounts of business users, one account of third-party consultant, one non-personified account of third-party provider (SAPSUPPORT), one non-personified dormant account (PERSONNELACT));
  - 12 A Dialog type user accounts in SAP SRM (including four accounts of Application and Web Development team, one account of business user, one non-personified dormant account (PERSONNELACT));
- Access to debugging:
  - 8 A Dialog type users accounts in SAP ERP (including one account of business user and one account of third-party provider (SAPSUPPORT));
  - 17 A Dialog type user accounts in SAP SRM.

We also noted that the updated SOP IT Change and Release Management Procedure specifies that *"Specific to SAP change management process, developers can move their changes from the development to quality environment, but they have no* *access nor allowed to move changes to the productive system.”*. We also noted that Management implemented the procedure to monitor deployment of transports in order to ensure segregation of duties within change management (transports are not deployed by developers) in FY 2023. We inspected the results of the procedure performed in March 2023 and noted that it requires further improvement in order to effectively minimize the risk of unauthorized changes deployed by developers bypassing the change management procedure. At the moment, monitoring results are not documented: it is not clear who performed the monitoring, at what date and what conclusion was reached (whether only authorized changes were deployed, or follow-up was required).

Access to change system settings (partially remediated)

While analysing privileged accounts in SAP systems, we identified a number of accounts with rights to change standard SAP system settings:

- 39 A Dialog type users accounts in SAP ERP, including accounts of COR/DIG, non-personified account of third-party provider (SAPSUPPORT), non-personified dormant account (PERSONNELACT);
- 26 A Dialog type user accounts in SAP SRM, including accounts of COR/DIG employees, non-personified dormant account (PERSONNELACT).

We would like to highlight the actions taken by Management during the audit, as a non-personified account of a third-party provider (SAPSUPPORT) was locked and will be opened by request for a limited amount of time. Action was taken to review all privileged access rights including those within the change management process as a SAP specialist was hired in FY 2023 to support the review of current role list, and SAP Application Role Matrix is reviewed and updated as needed.

Risk

Unauthorized modification of the system’s functionality and critical system data, breach of the system’s integrity, data consistency, and concealment of inappropriate actions. The risk is further increased when segregation of duties is not properly maintained in the change management process and developers are granted with access to transfer changes into production.

Recommendation	**Status: Partially remediated**

We recommend considering the following measures:

a. Review access rights for transport of changes, debugging and changing system settings in SAP systems and ensure that such access is granted on need-to-know and need-to-have principle;

b. Consider improving the monitoring controls of changes deployed in production to ensure that there is clear evidence of the procedure performed: who and when performed the procedure, what conclusions were reached. In addition, follow-up and corrective actions performed (if required) should be documented;

c. If access to debugging and changing system settings cannot be fully removed from employees responsible for SAP development, consider additional monitoring of activities performed under such accounts with segregation of duties conflicts. When designing the monitoring controls, the following factors should be taken into account:

   - Staff responsible for the monitoring (the independence of the controller should be considered);
   - Frequency of monitoring;
   - Documentation of the monitoring results;
   - Follow up activities for issues identified.

d. In case access is granted to third parties, it should be provided only for a specific task and for a defined period of time. Additional monitoring controls to review activity of accounts used by third parties should be performed.

Management response: Agree.

Significant progress has been made since the last observations to address this finding and efforts will be made to fully remedy the recommendation during 2023.

C.1.3. ITGC

Segregation of duties among business users

High

Recommendation

We recommend developing SAP conflict matrix to maintain segregation of duties for SAP users

During the audit, we identified that currently there is no up-to-date conflict matrix for SAP systems to support segregation of duties (SoD) during access provision.

As an example of a possible SoD conflict, we reviewed current access rights granted to end users and identified around ten COR/DIG accounts and an account of a Treasurer with access to OB52 transaction code and FB01, FB05, FB08, FB50 transaction codes. Such a combination of access rights allows these users to post journal entries to closed periods, which should typically be prohibited.

Risk

Segregation of duties conflicts in end user access rights increase the risk of inappropriate modifications of financial data that may lead to inaccurate, incomplete, or unauthorized processing of data.

Recommendation	Status: New

We recommend considering the following measures:

a. Perform an analysis of access rights to SAP ERP and SAP SRM which should not be combined in one role or provided to a single person, develop conflicts matrix for each system;
b. Analyse composite roles developed within SAP ERP and SAP SRM for SoD conflicts defined in conflicts matrix on previous step; divide conflicting access rights across independent roles;
c. Analyse access rights already provided to end users of SAP ERP and SAP SRM; revoke conflicting access rights where needed and reassign roles to maintain SoD;
d. Where conflicting access must reside with a single person for any reason, introduce additional regular controls (automated or manual) over activities of user accounts with SoD conflicts to ensure that any conflicting activities were properly authorized.

Management response: Agree.

Efforts are already in progress to address this recommendation.

C.1.4. ITGC

Security settings in SAP

High

Recommendation

We recommend strengthening security settings in SAP systems

At the beginning of our audit (October 2022) we noted that there was no detailed password policy with defined security parameters (minimum password length, maximum days before password change, etc.) within the Organization except for SAP systems (partially covered in SAP SOP Authorization Concept).

We reviewed password settings in MS Active Directory and noted that passwords must be changed every 180 days, which does not comply with the vendor (Microsoft) security guidelines (prompts change every 90 days).

We also noted the following SAP ERP and SAP SRM password settings, which do not correspond with best practices for establishing the secure password:

- Password expiration time – not defined;
- Number of invalid logon attempts before disconnect – not defined;
- Lockout time (time of inactivity before SAP GUI disconnects) – not defined;
- Password strength – usage of digits and special symbols is not required.

We also noted that access to SAP ERP can be obtained remotely through a web link, bypassing the corporate network, thus users are required to use only SAP accounts credentials to log in. This makes it even more important to use strong passwords in SAP environment.

We would like to give credits to Management as the new SOP Minimum Authentication and Password Requirements were introduced on 16 March 2023 setting forth password policy requirements for all IT systems. Moreover, a multi-factor authentication (MFA) was introduced for a range of applications in March 2023; however, during the audit we ensured the password settings for SAP ERP and SAP SRM remained unchanged.

Risk

Weak security settings increase the risk of unauthorized access to Organization's information systems and subsequent intentional or unintentional alteration/disclosure of sensitive data.

Recommendation	**Status: New**
We recommend UNIDO's Management ensure that password security settings in its information systems and resources are configured in accordance with the established security requirements and/or best practices and vendor guidelines.	

Management response: Agree.

A new password standard operating procedure and MFA have been implemented in Quarter 1 2023 for the key IT systems.

C.1.5. ITGC

Removing access rights from dismissed/resigned employees

Medium

Recommendation

We recommend introducing additional controls over timely locking of user accounts

We identified active user accounts of separated employees (not locked at employees' contract expiration date plus the seven-day grace period as per the Organization's policy) in SAP ERP and SAP SRM system:

- We noted four active accounts of dismissed employees that were used to log in to SAP ERP after the employee's contract expiration date; we were informed by the Management that there was a discrepancy in dates in HR records;
- We noted one active account of a dismissed employee that was not timely locked in SAP ERP and SAP SRM (within seven days after contract expiration date).

We would like to highlight that the Management has already taken actions to remediate the deficiency related to a discrepancy in dates in HR records and SAP ERP systems. The accounts identified were deactivated; we were informed that this issue was reported to the application team to add the scenario into the daily exception report. The contracts retroactively amended were not selected in the report. The Management is working on a new query to pull the data directly from SAP into AD.

Risk

Untimely locked user accounts of separated employees increase the risk of unauthorized access to the Organization's information systems and subsequent intentional or unintentional alteration/disclosure of sensitive data.

Recommendation: — **Status: New**

We recommend ensuring that user accounts of separated employees are timely locked after the contract end date plus the seven-day grace period by:

a. introducing additional accuracy checks of employee master data in SAP HR, which is used to establish user account validity date;
b. implementing periodic review of user accounts of separated employees (e.g., sample-based approach or through automated reports).

Management response: Agree.

Significant progress has been made since the last observations to address this finding and new standard operating procedures are being drafted to fully remedy the recommendation during 2023.

C.1.6. ITGC

Monitoring of SAP automated jobs

Low

Recommendation

We recommend monitoring errors during automated jobs execution

During the audit we tested selected automated jobs scheduled in SAP ERP and SAP SRM and identified instances where the scheduled jobs were completed with errors but were not corrected/restarted.

Upon discussion with the Management, we understood that automated notification of SAP administrators was missing and thus no actions could be taken to restart the jobs. Although these failures to restart the automated jobs did not have any impact on operations, and action was taken to eliminate their root cause, we see certain risks if this matter occurs systematically and propose the Management to strengthen the control over this matter.

Risk

Inability to timely detect and correct errors in automated jobs may result in inaccurate processing of data, processing inaccurate data or both as well as inability to access data when required.

Recommendation: **Status: New**

We recommend taking the following measures:

a. Review the list of automated jobs scheduled in SAP ERP and SAP SRM to verify that they are relevant for business purposes; disable obsolete, no longer needed jobs;
b. Ensure that errors/failures in automated jobs can be timely detected and resolved by responsible employees either by introducing automated or manual controls (automated notification of responsible employees, manual review of job execution logs, etc.).

Management response: Agree.

The necessary measures have been implemented in April 2023.

C.1.7. ITGC

Segregation of duties in the IT function

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

Critical

Recommendation

We recommend reconsidering SAP privileged account management

During the FY 2021 audit, we noted that the following critical functions were not properly segregated at the organizational and operational level:

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

We identified that system changes can be coded, tested and transferred to the live system environment by a single IT specialist. Moreover, the same IT specialist may perform typical administration functions (system configuration maintenance and user administration).

In FY 2022 we noted that standard operating procedures (SOP) IT Change and Release Management Procedure were significantly updated in November 2022. The document defines the program change and release management concept in relation to the SAP systems. The change management process was redefined to separate the role of development approval (approval of change requests, by the Change Manager) from the role of implementation approval (approval to release changes to production, by the Release Manager).

We were also informed that the SOP SAP Authorization Concept (the document defines the purpose of the administration, development and consultant roles in the SAP systems) will be revised in FY 2023.

For sample changes selected for testing purposes in SAP ERP and SAP SRM, we ensured that employees who developed those changes and employees who implemented the changes to production are not the same. Thus, we concluded that there was a significant improvement in segregation of duties within the IT function (specifically segregation of development and implementation functions) at organizational and operational level.

In view of the above, we propose to consider remediated issue C.1.1. ITGC noted in FY 2021 and in the prior periods. We would like to highlight that the risk related to segregation of duties is not fully minimized on the technical level as a number of developers have privileged access in SAP systems, including the access to transport changes in SAP ERP/SAP SRM. We propose to track the progress of remediation of these technical issues under paragraphs C.1.2. ITGC and C.1.3. ITGC within the present report.

Risk

Absence 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.

Recommendation:	Status: Remediated
Not applicable.	

Management response: Agree.

C.2 Cybersecurity

Recommendations	Level of risk
C.2. Cybersecurity	
C.2.1. (2020) Cyber. Information security management and support	High *(remediated)*
C.2.2. (2020) Cyber. Information security risk management process needs improvement	High *(remediated)*
C.2.3. (2020) Cyber. Vulnerability management process needs improvement	Medium
C.2.4. (2020) Cyber. Access was gained to sensitive data from internal information exchange service	Medium
C.2.5. (2020) Cyber. UNIDO's statistical data portal was compromised	Critical *(remediated)*

Introduction

As a part of the audit of the financial statements, we assessed remediation of deficiencies previously identified in information security (IS) controls.

Overall, the External Auditor team recognizes major improvements in IS processes, information security governance and controls across the Organization.

By the end of our audit, we acquired sufficient knowledge and evidence to consider complete or partial remediation of the following issues identified during prior audit engagements:

C.2.1 (2020): Information security management and support (remediated)

The External Auditor stated that UNIDO has yet to develop an information security policy to address critical IS governance requirements. The External Auditor recommended to develop IS policy and implement IS practices.

We recognize that the organization developed and promulgated key IS policies:

- UNIDO Information Security Policy (DGB/2023/01 as of 8 February 2023);
- UNIDO Policy on the Protection of Personal Data (DGB/2023/05 as of 14 March 2023).

In particular, UNIDO Information Security Policy (hereinafter the IS Policy) addresses the following issues noted by the EA:

- The IS Policy includes a leadership statement that describes the position of senior management in relation to ensuring information security;
- The IS Police formally assigns direct accountability for information security at the senior management level. According to the IS Policy, the Managing Director of the Directorate of Corporate Services and Operations (COR) is the custodian of the policy and is responsible for ensuring compliance with the UNIDO Information Security Policy.

- A top-down approach is established to guide, advise and provide strategic support for the information security function;
- A process to ensure continual improvement of the IS Policy is integral to the promulgated document.

Moreover, to support the operationalization of IS function, and as a part of restructuring of UNIDO, the following organizational units were established (DGB/2022/19 as of 7 October 2022):

- Information Technology and Digitalization Services (COR/DIG), which functions include development, management and review of UNIDO's information security management system through risk management, raising awareness, implementation of cybersecurity best-practices to safeguard and protect UNIDO's data and information assets;
- A position of ICT Security and Operations Officer within Information Technology and Digitalization Services.

Based on the above we consider issue C.2.1 (2020) to be remediated.

C.2.2 (2020): Information security risk management process needs improvement (remediated)

The External Auditor stated that Information security risk management process needed improvement. The External Auditor recommended UNIDO to develop IS risk management procedure and maintain this practice.

We recognize that throughout FY 2022 UNIDO improved the IS risk management through several steps:

- Analysed the business context of UNIDO and its IS environment;
- Made an inventory of information assets;
- Assessed the information security risk assessment and developed an information security risk treatment plan;
- Reported IS matters to UNIDO's senior management.

Based on the above we consider issue C.2.2 (2020) to be remediated.

C.2.3 (2020): Vulnerability management process needs improvement (partially remediated)

The External Auditor recommended UNIDO assess internal and external vulnerabilities on a regular basis. The External Auditor noted these assessments could be supported by external penetration tests, and automated vulnerability assessment scans should be performed regularly. Vulnerabilities identified have to be assessed, prioritized and treated.

The External Auditor acknowledges that UNIDO performs regular automatic scans. When issues are identified, respective tickets are raised, and vulnerabilities are treated. During the audit, the External Auditor obtained sample reports of such reports.

Nevertheless, the External Auditor recognizes the comprehensive implementation of prior recommendations:

- Vulnerability assessments and penetration tests: first external penetration test which identified vulnerabilities was conducted in Q1 2023 by UNIDO. The next penetration test is expected later in FY 2023, but a work plan for regular tests has not been introduced;
- A documented procedure on the identification, assessment, prioritization and treatment of vulnerabilities has not been developed yet.

The External Auditor will continue to monitor the implementation of its recommendation throughout FY 2023. Based on the above, we consider issue C.2.3 (2020) to be partially remediated.

C 2.4 (2020) Access was gained to sensitive data from internal information exchange service (partially remediated)
C 2.5 (2020) UNIDO's statistical data portal was compromised (remediated)

The External Auditor recognizes the efforts taken by UNIDO to remediate technical vulnerabilities identified by introducing the following improvements:

- An MFA has been enabled for all services consumed via UNIDO SSO; authentication for the services has been migrated to Azure AD, including SSO. As of 9 March 2023, 1 721 UNIDO users (around 82 per cent) are MFA capable;

- Credential Guard is under implementation for all endpoints/servers;
- Domain admin group privileges were reviewed (removal of all service accounts and configuration for these based on need to know/least privilege principle);
- xFiles is being decommissioned in March 2023 to be replaced by OneDrive, that embeds centralized logging and an MFA;
- Captcha issues have been addressed where technically possible in UNIDO websites such as official website;
- New capabilities to detect compromised accounts based on extracted IOCs[17] from previous incidents have been set up at Exchange level;
- Active dark web and typo squatting monitoring regarding UNIDO;
- Microsoft 365 Defender console monitoring for security alerts and incidents identified via automatic processes part of Azure AD (Identify Protection, Risky Users etc.)

The External Auditor acknowledges the efforts made. The External Auditor acquired sufficient evidence to consider remediation of issues identified within the statistical data portal (C.2.5 (2020)). The External Auditor recognizes a different approach to cloud as a major cloud migration from xfiles.unido.org to a secured OneDrive cloud is in progress. Since most users have already migrated, we reduce the risk level from Critical to Medium. We will follow implementation of recommendation C.2.4 (2020) throughout FY 2023 audit since the migration to a new cloud is in progress, and xfiles.unido.org is expected to be decommissioned.

C.3. Innovations

Background

During the FY 2022 audit, we performed an updated overview of innovations at UNIDO based on the audit results for FY 2021. We distinguished between innovations that UNIDO offered as part of field projects and UNIDO's innovations for core operations and business functions. The innovative cases and projects, alongside the overall restructuring and promotion of innovation across the organization, have been monitored by the External Auditor throughout the audit period.

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

- Studied and acknowledged recent organizational developments at UNIDO;
- Interviewed key personnel involved in developing innovations;
- Studied most recent use cases of internal and field innovations at UNIDO.

We acknowledge the efforts undertaken by UNIDO to recognize the strategic value of innovation, develop innovative culture and promote, foster, and maintain innovative activities across the Organization. These actions are also reflected in the restructuring process that transformed UNIDO Secretariat. Based on the organizational changes, we find it appropriate to highlight most recent innovative developments at the following structural units of UNIDO:

C.3.1. Innovation lab

In FY 2022 the Innovation Lab (ODG/CSI/LAB) was introduced to support UNIDO teams in the process of innovation, including scouting, developing, testing and scaling up innovative service delivery solutions (DGB/2022/19 as of 7 October 2022). The Innovation lab acts as a clearing house for an organization-wide network of focal points on innovation in technical cooperation with the objective to enhance the effectiveness and impact of the organization's delivery of services in line with the IRPF and other policies.

We recognize the efforts undertaken by the Innovation lab to promote innovation and enhance collaboration on innovative issues within UNIDO. The External Auditor previously noted UNIDO has historically strong focal points of innovation and notable innovative use cases, so it was important to establish a hub for innovations to be shared, developed and scaled up.

We recognize the establishment of Innovation lab and its practices is a work in progress that should be continuously supported by UNIDO's Management and leadership across directorates. To further promote and integrate innovative

[17] Indicator of compromise, refers to the evidence on a device that points out to a security breach.

activities, UNIDO's Management might consider formulating and introducing respective guiding documents for innovative activities of Innovation lab and focal points of innovation, e.g. annual working plans.

C.3.2. In-house innovation

As a part of UNIDO restructuring, the Information Technology and Digitalization Services (COR/DIG) was introduced. Its functions include development, planning and support of major initiatives aimed at transforming UNIDO's future IT infrastructure and business operations (DGB/2022/19 as of 7 October 2022).

During FY 2020 COR/DIG introduced the five Pillars of our Digitalization Framework based on high-impact and budget-neutral initiatives, including collaborative environment (1), information security (2), resilience and business continuity (3), digital innovation (4), digital skills and adaptability (5).

The External Auditor recognizes COR/DIG initiatives within the framework and their positive impact on IT environment of UNIDO across the pillars mentioned. While the list of innovations is not exhaustive, in addition to innovative developments described in sections C.1 Information technology general controls (ITGC) and C.2 Cybersecurity, we would like to highlight the following activities:

(1) Enhanced connectivity. All UNIDO users can use Microsoft Teams to connect and collaborate. During the audit the External Auditor noted creation of 270 teams (groups of users) and 1 300 channels (topics) with over 200 external stakeholders that had been invited. The Microsoft Teams is also integrated to SharePoint and OneDrive which enable UNIDO users to synchronize their files to a secured M365 cloud. During the audit it was noted that 35 per cent of UNIDO users have been actively collaborating on online files via MS Teams SharePoint/OneDrive.

(2) Increased RPA implementation in the following processes:

- **Treasury bank statements upload and FIN processor assignment.** It automatically loads bank statements into SAP (around 300 bank statements per year) and assigns resulting postings to Finance's processors for clearance.

  This automation makes the process much faster proving better coordination among FIN processors that previously had to dig through statements to process their work.

- **Vendor bank details input.** The robot processes online forms/tickets submitted by internal users with vendor bank details (registers around 1 200 vendor bank details per year). It performs predefined checks, e.g., validity of IBAN, comparison of the vendor country vs bank country, checks for duplicates, etc. If no errors are found, it inputs the bank details in SAP and files a log of its findings. It replies to tickets with a list of errors or if successful with a confirmation of input.

  The robot's inbuilt checks and logs to users, enhances fraud prevention and reduces errors contributing to compliance, risk management, and coordination efforts. Automation means faster processing, thus providing higher client satisfaction. It contributed to the prevention of a fraud attempt by highlighting to FIN that the bank country was different to the vendor country.

- **Donor statements generation and validation.** Produces the set of standard statements for donors upon FIN requests (around 300 donor financial reports per year). If verifies the validity of figures vs SAP back-end postings and creates a log with checks and exemptions. It emails the findings to FIN processors and certifiers. Accounts chief certifies reports by email to the robot that in turn publishes them to document repository and links them to online Donor dashboard.

  Beyond time and cost savings, automation of report production made available online to donors, it enhances compliance, transparency, digitalization, and client satisfaction. At the same time, it reduces paper consumption and provides better knowledge management and coordination with donors.

- **Travel advances payment process.** It processes cash travel advances by producing a list of upcoming trips and performing several checks (around 1 500 cash travel advances per year). For instance, assuring traveller has a contract upon return or that she/he has no previously unsettled advances. If conditions are met, the advance is approved and posted being thus ready for treasury payment. Produces a log with its findings that is consulted by FIN for trips where errors were found.

  It speeds up the process of travel advances and at the same time automatically enforcing financial rules regarding travel.

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C.3.3. SDG innovation

On a separate level, the External Auditor recognizes efforts undertaken by UNIDO to foster innovation for the SDGs. As a part of restructuring of UNIDO, the Directorate of SDG Innovation and Economic Transformation (IET) was introduced, which is responsible for the development of innovative UNIDO services in the areas of agro-industry and agribusiness, sustainability standards and fair production, and climate-relevant or climate-improving technologies (DGB/2022/19 as of 7 October 2022).

To support the SDG innovation, UNIDO also continues its cooperation with the Vienna University of Economics and Business. The joint effort known as SDG-hub offers a space for innovation to generate transformative learning processes and learning environments, support sustainability transformation processes and contribute to positive socio-ecological impact promoting the achievement of the SDGs.

Conclusion and recommendation

Overall, the External Auditor recognizes UNIDO as an innovative organization that places innovation at the centre of its operations and demonstrates its capabilities through many successful projects and use cases.

To promote innovations even further and ensure a sustainable flow of innovative projects, UNIDO's Management should continue its support of collaborative activities across the organizational units, focal points of innovation and the Innovation Lab, which could also be supported by respective guiding documents, e.g., annual working plans.

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 out of 67 recommendations, 35 (52 per cent) have been implemented or closed, 14 (21 per cent) are ongoing and 18 (27 per cent) have not yet been implemented. We divided the recommendations by "critical", "high", "medium" and "low" priority in order to focus on the most meaningful recommendations (please refer to tables 1–3).

Table 1. Status of the prior year recommendations

Type of recommendation	Number	Per cent
Implemented	35	52
Ongoing	14	21
Not-implemented	18	27
Total	**67**	**100**

Table 2. Priority of the prior year recommendations

Priority	Implemented	Ongoing	Not-implemented
Critical	5	0	0
High	11	4	4
Medium	16	7	12
Low	3	3	2
Total	**35**	**14**	**18**

Table 3. Open recommendations (ongoing and not implemented) by year

Year of recommendation	Number	Per cent
2021	17	53
2020	12	38
2019	2	6
2018	1	3
Total	**32**	**100**

Appendix A presents comments on the implemented or closed External Auditor's recommendations.

Appendix B presents the implementation status of the ongoing and not implemented External Auditor's recommendations, with estimated implementation deadlines and responsible teams.

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

Appendix A. Implemented recommendations

					Status: I: Implemented O: Ongoing N: Not implemented				
No	**Audit report year**	**Report reference**	**Recommendation of the External Auditor**	**UNIDO's response**	**I**	**O**	**N**	**Priority**	**Comment**
IMPLEMENTED RECOMMENDATIONS									
1	2021	A.1.1	**Property, plant and equipment (PPE)** Physical verification process may be formal or incomplete. This may compromise the asset verification process. EA recommends 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. 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.	Already implemented and shared with the External Auditor.	X			Medium	
2	2021	A.1.2	**Property, plant and equipment (PPE)** PPE delivered to UNIDO may be omitted as at reporting date. EA recommends 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.	As agreed with EA's we have updated the Accounting manual #25-Goods receipt, to include additional controls for accurate PPE recognition.	X			High	
3	2021	A.1.3	**Property, plant and equipment (PPE)** Non-controlled PPE may be recorded on UNIDO's Statement of financial position. EA recommends 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 para 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 timely basis.	Implemented the procedure of the analysis of PPE assets that should be expensed.	X			High	
4	2021	A.2.1	**Receivables and Revenue** UNIDO recognized foreign exchange gains/losses as part of revenue. EA recommends that Management recognize revenue and foreign exchange gains/losses separately in the Statement of financial performance.	Agree with the recommendation and already reflected in the 2021 financial statements.	X			High	
5	2021	A.2.2.	**Receivables and Revenue** Receivables classification as current and non-current based on expectation of project implementation schedule that may be imprecise. EA recommends that Management strengthen internal controls over planning of GEF projects and re-assess estimates that impact proper accounts receivables classification.	New methodology in classification of ST/LT receivables for GEF has been implemented with '22 Financial Statements. With '21 FS restated accordingly.	X			Medium	
6	2021	A.3.1	**Liabilities and Expenses** Contractual services may include expenses that relate to the previous reporting periods. EA recommends 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.	Managers are encouraged to adhere to the Procurement Manual guidelines on timely recognition of goods and services.	X			High	

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	**Status:** **I: Implemented** **O: Ongoing** **N: Not implemented**			Priority	Comment
					I	O	N		
7	2021	B.1.1	**ESG current practice** Indicators calculated and presented in the Annual Report may be based on inconsistent methodology. EA recommends 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 holistic and systematic approach for project managers trainings. c. Revise the calculation of avoided CO2 emissions taking into account actual data and project specifics. d. Embed all IRPF indicators in SAP in relation to the priority of the task.	Annual Report 2022 contains quantitative evidence in relation to the achievement of the targets contained in the Programme and Budget 2022–23 and has been underscored by a closer review of data quality in terms of completeness and reliability. a. The results framework is approved by the Member States and the SAP system fully embeds the approved indicators. b. Training on results has been launched as part of induction for newcomers and is envisaged to be run on a quarterly basis. c. The approach of calculation of CO2 emissions has been revised, and now actual data is used for calculation. d. ERP indicators are already embedded in SAP.	X			High	
8	2021	B.1.4	**ESG current practice.** Absence of ESG reporting standards reduces transparency vis-a-vis stakeholders. In order to strengthen ESG reporting, External Auditor recommends that Management: a. Develop or adopt an ESG reporting framework to improve reporting clarity and balanced reporting principles. b. Provide more information on contribution to SDGs for projects disclosed in the Annual Report.	Annual Report 2022 provides for the first quantitative evidence in relation to targets contained in the 2022–23 Programme and Budgets document. Depending on feedback from Member States, changes will be introduced in the Annual Report 2023	X			High	
9	2021	B.1.5	**ESG survey.** Stakeholder expectations with respect to ESG disclosures are not fully reflected in the Annual Report. EA recommends that Management: a. Continue practice of communicating with stakeholders in order to reveal stakeholder expectations and areas of interest related to UNIDO's activities. b. Consider introducing disclosures that are not covered in the Report, including comparative data, benchmarks, etc. c. Enhance the current format of the UNIDO Annual Report in response to the stakeholder survey.	The structure and format of Annual Report 2022 has been changed. If the Member States request additional information in the Report, it will be taken into consideration.	X			Medium	
10	2021	B.2.2	**Project implementation.** IRPF indicators on the projects are set formally and may be not appropriately reviewed. EA recommends UNIDO Management: a. 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. b. Encourage PMs to revise IRPF indicators on the ongoing projects and update them based on the training results in accordance with the IRPF. c. Establish internal control procedures on a regular basis over the correctness of IRPF indicators set on the projects.	a. First batch of training on result structure and risk management at project level scheduled for end March 2023 (hence item can be closed). b. Result structure in SAP reflecting causal model (and indicators) contained in approved project document – new and better aligned template for project documents is to be promulgated with revised TC guidelines. c. Quality control for IRPF data was performed in relation to 2022 data for both completeness and reliability (the latter for selected projects with significance for the reporting included in the Annual Report 2022)	X			Medium	
11	2021	B.6.3	**HR.** Merit promotion does not result in the revision of the budgetary and classified level of the posts. EA recommends the following: a. Ensure that updated salary data for employees receiving merit promotions is included in the UNIDO budget. b. 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.	Merit Promotion and Merit Awards have been suspended by the Director General until a new Promotion Scheme linked to Performance and availability of higher-level positions, is designed.	X			High	

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	Status: I: Implemented O: Ongoing N: Not implemented I	O	N	Priority	Comment
12	2021	C.1.1.	**Segregation of duties within IT-function**: critical functions are not properly segregated at both organizational and operational level EA recommended reconsidering SAP privileged account management, including the following a. Segregate functional responsibilities of IT staff, assign separate staff with responsibility for development, implementation and BASIS activities OR b. 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) AND c. 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.	Segregation of duties of IT staff has been performed for development, implementation and BASIS activities. The main changes are: a) SOP on IT change and release management has been updated and implemented since Mid-November 2022 to ensure segregation of duties in the change and release approval process. b) The Basis role is now segregated from the Transporter role. c) Database and system administration roles are restricted to basis role only. d) All DIG staff with transporter roles are under Change and Release manager. e) User administration and role administration has been segregated and made available only to Service Desk staff. f) a COR/DIG staff was re-assigned under the Change and Release Manager to follow new roles and segregation of duties We suggest closing this recommendation, further work will be performed for the business areas based on recommendation No. 39 in the 2022 interim audit report.	X			Critical	
13	2021	C.1.2.	**SAP privileged account management**: critical permissions are not properly restricted EA recommended management reconsidering current SAP authorization concept: a. Establish a formal procedure for monitoring all kinds of privileged access. b. Grant privileged access for a limited time based on authorized requests and strict monitoring of all privileged access actions. c. Limit non-personified privileged accounts by technical users only without the possibility to logon. d. Conduct regular inventory of privileged accounts.	a) Privileged access is granted for a limited time based on authorized requests and monitored based on the updated SOP of Change and Release Management. b) Non-personified privileged accounts by technical users cannot log on. c) There is a regular inventory of these privileged accounts. We suggest closing this recommendation, further work will be performed in this area based on recommendation No. 35–37 in the 2022 interim audit report.	X			Critical	
14	2021	C.1.3.	**Privileged access rights within change management process** EA recommended reconsidering SAP privileged account management within change management process: a. Implement monitoring procedures over the validity and relevance of privileged permissions: - Usage of privileged access and sensitive generic IDs. - SAP production client opening. - Validity of changes transferred to the SAP production client and/or changes performed directly in the SAP production client. - Validity of access rights (including segregation of duties analysis) to key applications and databases. b. Implement monitoring procedures over the validity and accuracy of direct changes processed. c. 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 or/and system owner). d. Consider the implementation of monitoring controls. When designing the monitoring controls, the following factors should be taken into account: - Staff responsible for the monitoring (here, the independence of the control performer should be considered). - Frequency of monitoring. - Documentation of the monitoring results. - Follow up activities for issues identified.	a) Privileged access is granted for a limited time based on authorized requests and monitored based on the updated SOP of Change and Release Management. b) All the listed monitoring procedures are implemented and regularly performed. We suggest closing this recommendation, further work will be performed for the business areas based on recommendation No. 38 in the 2022 interim audit report.	X			Critical	
15	2020	A 1.1.5. IDB.49/3 PBC.37/3	**Manual SAP data source modification** Unauthorized modification of critical system data may result in breach data integrity and consistency. EA recommended: 1. Reconsider the current approach to the processing of direct changes and minimize the number of such changes.	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	X			High	Closed as will be followed up within the recommendation C.1.3 (2021)

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	Status: I: Implemented O: Ongoing N: Not implemented I	O	N	Priority	Comment
			2. Perform 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.	relevant for the approved cases. 3. Direct table changes are being monitored and validated.					
16	2020	A 1.4.2. IDB.49/3 PBC.37/3	**TC equipment expensed** 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 physical conditions of the asset under an agreement with the donor, the burden of maintenance shall be transferred to beneficiary. This new approach would lead to a reduction of the deficit because revenue and expenses would be mostly matched in the statement of financial performance. The current approach requires UNIDO to recognize revenue when UNIDO is granted the funds for a PPE purchase. In further reporting periods, after the project is completed, UNIDO transfers title for equipment to the beneficiary and recognizes deficit (as income recognized when PPE was purchased).	The statement on revenue recognition is correct, except it is a "surplus" not a "deficit" (IPSAS revenue is recognized sooner, when asset is purchased, then the expense, when assets is depreciated/retired), i.e., the sooner the transfer and retire asset from the books, the sooner the expenses are matched with income.	X			Medium	Closed as will be followed up within the recommendation A.1.3
17	2020	A 1.4.4. IDB.49/3 PBC.37/3	**PPE: Physical observation** UNIDO performs physical observation "book to floor" and relies on an RTLS. EA recommended that UNIDO develop stock take instructions that explicitly designate employees to be responsible for the count. In addition, External Auditor 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.	Already implemented and shared with External Auditor	X			Medium	
18	2020	B 1.2. IDB.49/3 PBC.37/3	**UNIDO Secretariat Structure 2020** 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.	The Secretariat underwent restructuring in 2022, new Terms of Reference have been issued.	X			Low	Closed considering the 2022 Secretariat restructuring
19	2020	B 3.1. IDB.49/3 PBC.37/3	**FCR improvement** Current FCR does not provide fully recoverability of total indirect costs arising during TC projects implementation. EA recommended that Management: • Continue its best efforts at launching FCR and focusing on cost efficiency, in particular, on optimizing cost drivers and getting costs recovered. • Automate the collection of data about the actual time spent by HRM, PRO and other departments on TC related activities by introducing timesheets on a regular basis to better reflect time spent on the tasks recoverable under FCR and subsequently more accurate calculation of unit costs. • Create system functionality to enable the analysis of all actual incurred costs. Such an approach would help to calculate future project budgets more precisely and provide more accurate information on actual costs.	FCR dashboard was finalized in 2023 and now contains full information regarding FCR. UNIDO regularly updates FCR price list and works on improvement of cost recovery processes.	X			Medium	
20	2020	B 5.1. IDB.49/3 PBC.37/3	**Shopping cart administration** 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 in use in order to avoid potential errors; b) creating step-by-step guidelines for project managers/allotment holders about the principles of SC/PO review to improve control; c) continuing the best efforts in implementing a shared procurement service within ROTC.	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	X			Medium	

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	**Status:** **I: Implemented** **O: Ongoing** **N: Not implemented** I	O	N	Priority	Comment
21	2020 2017	B 5.2. IDB.49/3 PBC.37/3 para 191 IDB.46/3 PBC.34/3	**Lack of a procurement plan** 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.	The procurement plans are an internal tool used by COR/PRO to optimize the acquisitions process to the extent possible. They are not published as they are only indicative in nature. In addition, due to the specifics of the project funding cycles it is not possible to produce a yearly consolidated procurement plan at regular intervals. However, the transparency is provided for by the UNIDO Open Data platform where information on procured or to be procured types of goods/services is available by country, by project, etc. Also, all our tenders are published on our website and on UNGM, also where applicable, in other media, by thus ensuring the widest possible coverage of potential suppliers.	X			Medium	
22	2020	C 1.1. IDB.49/3 PBC.37/3	**Segregation of duties within IT-function** 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.	Implemented.	X			Critical	
23	2020	C 1.2. IDB.49/3 PBC.37/3	**Privileged account management** 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 activate it on demand for a requested period.	X			Critical	Closed as will be followed up within the recommendation C.1.2 (2021)
24	2020 2017	C 2.1. IDB.49/3 PBC.37/3 para 160, 183,184 IDB.46/3 PBC.34/3	**Information security management and support** 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.	The UNIDO Information Security Policy covering all audit recommendations has been promulgated in January 2023. a) The policy established the 2nd line of defence in Information Security, which consists of Information Security Officer, Chief of IT and Managing Director. The policy has been promulgated as a DGB, which is the highest level of policies in UNIDO. The custodian of the policy is the Managing Director, and responsible for its implementation. b) The policy covers the continual improvement process. The KPIs include Security Scorecard (external IP reputation monitoring, including non-authenticated vulnerability scans for all UNIDO public-facing platforms), regular UNIDO Cybersecurity Awareness Training completion and key controls specified in the IS policy and related to information security risk management. We suggest this recommendation to be closed. Further work will be performed as part of the continuous improvement process in ISMS.	X		X	High	
25	2020	C 2.2. IDB.49/3 PBC.37/3	**Information security risk management process needs improvement** 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 roadmap. • Take a robust approach to information security and data protection risk reporting and monitoring at the senior management level to ensure that risks related to people, processes and technology are reported to senior management to inform decision making at the executive level.	The Risk Assessment has been performed for COR, and the risk mitigation plan has been developed and integrated in the yearly COR/DIG workplan. The Risk Reports have been presented in COR/DIG to the risk owners, the mitigation plan for 2023 has been agreed; final reports have been presented to and accepted by the Chief of COR/DIG and sent to senior management. The IS Risk Management Procedure has been developed by DIG and follows the feedback cycle in COR, then for a Legal review. We suggest this recommendation to be closed. Further work will be performed as part of the continuous improvement process and the yearly risk assessment within ISMS.	X			High	

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	Status: I: Implemented O: Ongoing N: Not implemented I	O	N	Priority	Comment
26	2019	para 29 IDB.48/3 PBC.36/3	**Voluntary Contributions Receivable –Advance** Present a course of action in 2020 to the Executive Board on the long outstanding unprogrammed balances that would facilitate the programming of the funds for UNIDO projects.	It has to be noted that terminology "unprogrammed" balances is not entirely correct as the balances left on closed project cannot be freely programmed by UNIDO management. The decision to reprogramme unprogrammed (remaining) balances of earmarked funds rests with the respective donors: as per standard memorandum of understanding the leftover funds can be either returned back to the donor or transferred to another project. UNIDO regularly sends financial statements to the donors and enquiring on the possibilities. In addition, to comply with the External Auditor recommendation, FIN is finalizing guidelines, which will allow to keep project amounts in general purpose fund should the donor chooses not to reply within certain period.	X			Medium	
27	2019	para 46 IDB.48/3 PBC.36/3	**Confirmation of Delivery not the actual delivery nor acceptance date of the Asset** Ensure the timely execution of confirmation of goods received in the SAP – FAM and Finance module to capture the correct capitalization date, which will guarantee the correct period of recording the asset procured and computing the necessary depreciation expense.	Controls are conducted on a regular basis over the creation of confirmations by requisitioners as soon as the goods are delivered, not only when the invoice is received.	X			Low	
28	2019	para 55 IDB.48/3 PBC.36/3	**Need to provide capacity-building activities to the PM assistants** Conduct technical skills and knowledge check on all users of the SAP Procurement module who are involved in the creation of shopping cart, receipts of goods, payment, recognition of assets and monitoring to identify appropriate interventions that would reduce, if not eliminate recurring errors and monitoring lapses.	Capacity building is conducted on a regular basis for PM assistants and those participating in ROTC programme.	X			Medium	
29	2019	para 137 IDB.48/3 PBC.36/3	**Integration of sustainable procurement in the procurement processes** Intensify efforts in operationalizing sustainable procurement principles by including in its regular procurement processes concrete and identifiable activities that demonstrate practices for sustainable procurement.	Screening of sustainability of centralized procurement actions is regularly done though UNGM website, where centralized procurements must be published and in line with the methodology developed by the Sustainable Procurement Working Group of the HLCM Procurement Network to allow consistency of results and reporting. Moreover, a library with SP recent publications is available on Open Text of the Division	X			Medium	Closed as will be followed up within new recommendations from 2022 External Auditor Report
30	2018	para 163 IDB.47/3 PBC.35/3	**Alignment of Work plans with the results in the P&B and the elements of RBM** EA recommended that UNIDO enhance its work plans and work planning process by aligning it with the results in the P&B and the elements of RBM.	Senior management is considering next steps in aligning workplans with RBM/MTPF structure, based on the restructuring and allocation of responsibilities in the organization. The preparation of the Programme and Budgets 2024–2025 will be a prerequisite for deepening this work.	X			Medium	
31	2018	para 196 IDB.47/3 PBC.35/3	**Well-defined risks for projects** EA recommended that UNIDO: (a) instruct PMs to update project documents as well as the related submodule in Portfolio and Project Management (PPM) for incomplete OVIs and risk data, as a prerequisite in the approval/clearance of the project and ensure that the OVIs and risk data captured in PPM are consistent with the data reflected in the project documents; and (b) require PMs to take into account organizational requirements along with the requirements of the donors, in formulating project documents.	The updated Administrative and Operational Guidelines for the Life Cycle of Development Cooperation Programmes and Projects (DCGs) are currently under promulgation; they should address the recommendation.	X			Medium	Closed as will be followed up within new recommendations from 2022 External Auditor Report
32	2018	para 200 IDB.47/3 PBC.35/3	**Structured formulation of the Project Logframe** EA recommended that UNIDO: (a) strengthen the project appraisal and approval process by ensuring that the results of the review of the log frames are integrated and given substance in the final project documents before these are confirmed/approved; and	Under the framework of the newly promulgated internal governance structure, the mandate of IET/QUA, as provider of secretariat function to the Operations Committee, is more clearly articulated in relation to quality assurance.	X			High	

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			(b) evaluate and as necessary, redefine the role of the QUA in providing secretariat support to the such that recommendations on quality Executive Board (EB) improvements of the log frames are given due consideration before these are submitted to the EB.						
33	2018	para 211 IDB.47/3 PBC.35/3	**Conduct of ex-post evaluation** We recommended that UNIDO: (a) establish funding mechanism that would support independent evaluations to gauge the impact of programmes/projects to UNIDO's programmatic thrusts; and (b) develop an estimate of the resources (financial, human, capital) that are available for evaluation and what will be required to answer current and future evaluation demands, to support the proposal for establishment of an evaluation funding mechanism.	a) Mandatory Project Evaluations continue to be funded by each project budget and need to be done during the project lifecycle. EIO keep advocating for establishing the funding mechanism to move all mandatory project evaluation allocated budgets in one fund, that will allow complying with project evaluation requirements, and in addition, to conduct some ex-post and more programmatic evaluations. b) Currently, financial resources for strategic/corporate level evaluations in the P&B is zero. EIO evaluation work plans have been provided with resources by the Executive Board at around Euro 300k-350k/year (equivalent to 0.4–0.5 of regular budget). Since these resources are not included and earmarked for evaluation in the P&B, hence they are not predictable nor sustainable. It is suggested to include this percentage in the P&B, so the operational budget for evaluation becomes predictable and sustainable.	X			Medium	Closed as it is effectively absorbed by recommendation B.2.3 (2021)
34	2017	para 125 IDB.46/3 PBC.34/3	**Risk Management** EA encouraged UNIDO to develop a Statement of Internal Control (SIC).	No change since 2021.	X			Low	Closed as will be followed up within new recommendations from 2022 External Auditor Report
35	2016	para 100 IDB.45/3 PBC.33/3	**Weakness in internal control** EA recommended that UNIDO ensure that roles and responsibilities for the assignment of consultants are clearly established in the Framework for ISA and clearly separated between the PM and HRM. The decision of the PMs/AHs in the selection process should be reviewed and approved by a unit which has central competencies in ensuring the transparency and efficiency of HRM. Furthermore, UNIDO should provide standardized ranking and assessing sheets for all PMs. This would improve transparency and comparability in the selection process.	The revised ISA Framework has been circulated to the OCC for review and comments. 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.	X			Medium	Closed as it is effectively absorbed by recommendation B.6.7 (2021)

Appendix B. Ongoing and not implemented recommendations

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	Status: I: Implemented O: Ongoing N: Not implemented — I	O	N	Priority	Estimated date of implementation	Responsible for the implementation
ONGOING/NOT IMPLEMENTED RECOMMENDATIONS										
36	2021	B.1.2	**ESG current practice.** Indicators in the Annual Report may skip comparative data. EA recommends 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.	Comparators have not been included in the Annual Report 2022 as this is the first year on result-based reporting (in relation to the indicators with targets in the Programme and Budget 2022–23 document).			X	Medium	30.06.2023 – 31.03.2024	ODG/CSI with data support by IET/QUA
37	2021	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. EA recommends that Management: a. 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). b. Update the existing structure of indicators (consider including ESG reporting indicators that are more relevant).	a. Criteria for selection of success stories was shared with External Auditor team and implemented as a pilot for the Annual Report 2022 b. Plan to expand/review the list of IRPF indicators, providing a possible platform for the inclusion of ESG reporting, will be explored in relation to the forthcoming Medium-Term Framework Programme 2026–30		X		Medium	31.12.2023	ODG/CSI and IET/QUA
38	2021	B.1.6	**ESG gap analysis.** Current ESG reporting does not include a number of relevant disclosures. EA recommends that Management consider additional environmental, social, and economic disclosures to be embedded into ESG reporting practices.	UNIDO plans to expand/review the list of IRPF indicators, providing a possible platform for the inclusion of ESG reporting, will be explored in relation to the forthcoming Medium-Term Framework Programme 2026–30			X	High	31.03.2025	ODG/SPU and IET/QUA
39	2021	B.2.1	**Project implementation.** Budgets are insufficiently justified. EA recommends 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).	In line with newly announced internal governance structure, the mandate over issuance of business procedures has been formally entrusted with the Business Procedures Committee (BPC). An update will be provided after 30 April 2023, after the first meeting of the BPC.			X	Medium	31.12.2023	BPC
40	2021	B.2.3	**Project implementation.** Criteria for mid-term and terminal evaluation are not clearly defined. EA recommends Management: a. Complement UNIDO's Evaluation Policy with the definitions of mid-term, terminal, and ex-post evaluations, as well as their timing within the project cycle. b. 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. c. Develop funding mechanisms for impact assessment after project completion, as well as identify criteria for selection of projects subject to ex-post evaluation.	Inclusion of an EIO representative as <u>observer</u> in the Operations Committee (OC) is envisaged to provide greater participation in the process of project appraisal, though maintaining the clear distinction between functions. No further development on identification of funding opportunities for systematic (longer-term) impact assessment. a) no further comments b) management to ensure/enforce during appraisal and approval of projects c) EIO is proposing that all approved TC budgets for projects/programmes MUST include an adequate EVALUATION budget that SHOULD be moved to an EVALUATION FUND (under EIO responsibility). This would allow EIO to continue providing the project independent evaluations as required, and IN ADDITION to gain efficiencies to conduct cluster evaluation, outcome evaluations (after project closed), and ensure project evaluation is more representative to the TC portfolio, and better providing 3rd line assurance on results and impact of the TC programme.			X	Medium	31.12.2023	a,c. EIO b. OC, BPC

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41	2021	B.3.1	**FO Assessment.** Communication between FOs and HQ requires improvement. EA recommends the following: a. Strengthen FO's staff involvement in preparation of documents regulating the FOs work or used by FO's staff in their operations. b. Include a list of specific projects with FOs involvement into standard reporting templates, specify activities performed with respect to those projects. It will allow to understand the workload and involvement of FO in TC projects, keeping the responsibility of PMs for the projects. c. Add FOs work plans into bi-weekly minutes of meetings between FOs and HQ that would allow to track FOs progress. d. Continue to foster a culture of giving on-the-spot feedback to FOs.	The establishment of the Directorate of Global Partnerships and External Relations (GLO) in 2022 signals, among others, the strong will of the Secretariat to enhance systematically the communication between FOs and HQs. It is worth noting that while the reform focused in 2022 in HQs based functions extensive work was initiated to reform the field network. From the outset of the field reform process, FOs have been put at the forefront of the discussions to ensure their views and experience play a pivotal role to shape the future field network of the Organization. After the creation of GLO, strong emphasis has been placed on improving the communication between HQs and FOs. Among other initiatives, GLO Managing Director has met with representatives of all FOs through structured regional meetings. Regional Bureaus have continued to pursue continued communication and exchanges with their respective FOs. Additionally, the Director of the Regional Bureaus and Field Offices (GLO/RFO) regularly shares written communication of interest to all offices and communicates bilaterally, as appropriate. GLO/RFO also takes the lead to organize quarterly regional teleconferences and to facilitate a systematic flow of information between FOs and HQs. During 2023, the field reform will continue paying particular attention to the communication and cooperation between FOs and HQs – for further information see point B.1.1		X		Low	31.12.2023 (based on the results of the FO network restructuring)	GLO/RFO
42	2021	B.4.1	**ROTC.** Centralization of medium value procurement. EA recommends 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.	No further development.			X	High	31.12.2023	IET/QUA
43	2021	B.4.2	**ROTC.** Implementation of ROTC pilot requires ongoing analysis and monitoring. EA recommends 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	Internal Assessment to be undertaken in Q2 2023			X	Medium	30.09.2023	IET/QUA
44	2021	B.4.3	**ROTC.** Segregation of PM duties during the project cycle is not formalized. EA recommends that Management prepare a detailed guidance that stipulates the roles and responsibilities of PMs groups involved in technical cooperation. In particular, such document should contain the following: a. Job descriptions, including specific roles and responsibilities of each group of project managers, activities, and tasks to be performed within their area of responsibility. b. Accountability framework, indicating reporting mechanisms, subordination between two PM groups as well as communication	The status of ROTC as an organizational tool is still pending. ROTC within the limited staff complement in each Directorate is not feasible at this point. The current JD for Project Managers include responsibilities along various stages of the Project Cycle. It is not possible to compartmentalize the roles of Project Managers along the stages of the Project Cycle. This is because of the nature of the work of Project Managers and their limited number in UNIDO. Segregation of certifications and approvals to allow for 4-eyes principle, should be in the workflows.			X	Low	Deadline not set	Responsible person not assigned, to be decided by DG with indication of deadlines

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			channels and cooperation principles. c. Procedures for conflict resolution should any misunderstanding arise between PMs from different groups of the same project.							
45	2021	B.5.1	**UNRC.** Benefits from participation in the UNRC system shall be considered on the ongoing basis and reported. Taking into account Management progress in UNRC implementation, External Auditor recommends Management: a. Continue evaluation the efficiency of the participation in UNRC system and making efforts in informing Member States about its results. For this purpose, the relevant chapter may be included in the Annual Report. b. Consider development 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. c. Communicate to RCs UNIDO's objectives and plans for 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.	(a) The UNIDO Annual Report is a performance report on the implementation of the medium-term programme framework and programme and budgets, and narrative account of the results of technical programme implementation. Also, in view of the mandated length of the report, it is not the place to provide details on the UNRC system or the UN development system reform. UNIDO reports regularly to the PBC and IDB on this matter. (b) Two important indicators to track cooperation with the UNRC system are the number of UN country teams in which UNIDO is a member and the number of UN Sustainable Development Cooperation Frameworks signed. While not linked to the UNRC system, UNIDO is also tracking the number of joint programmes with UN entities. Beyond that, there are no plans to establish indicators. (c) Also in 2022, UNIDO held meetings with UNRCs to discuss cooperation and promote UNIDO objectives. Meetings (in 2022) included i.a. the UNRCs in Bahrain, Cambodia, Lesotho, Philippines, Uruguay, Zambia.		X		Medium	31.03.2025 for para (b) Para (a) and (c) closed	ODG/SPU in cooperation with GLO/RFO and GLO/FLS
46	2021	B.6.1	**HR.** The current composition of workforce should be polished to ensure the implementation of the HR strategy. To be in alignment with the organizational pillars and achieve UNIDO's strategic objectives, External Auditor recommends the following: 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. 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).	The HRS Strategy for 2020–2022 is now superseded with revised Draft HRS RoadMap 2023–2025 that is currently with COR/OMD for review. There is a new direction based on priorities for organizational change and renewal. The points a) and b) are relevant and is already part of the ongoing analyses of the workforce in order to move from the current legacy workforce to the desired structure.		X		High	31.12.2023	COR/HRS
47	2021	B.6.2	**HR.** Staff competencies should be specified for each position. EA recommends considering the following action plan for identifying and assessing competencies and closing the competencies gaps: <u>1. Competency mapping</u> a. Determine the key groups of competencies b. Identify the competencies that fall into each group for each UNIDO division/office. c. Develop a scoring system for each competency to evaluate proficiency. d. Complement the job profiles for each employee/position in UNIDO divisions/offices with target level of competencies. e. Analyse and update the job profiles against the ICSC requirements. <u>2. Assessment of competencies</u>	The Mandate for Competencies and Related Skills Inventory has been moved to COR/LED. **HRS:** The methodology for Competencies Mapping and Assessments is theoretically good. In the UNIDO context where there are only 203 Professionals with defined Job Roles at varying levels and 355 Support Staff also with defined Job Roles. The technical skills inventory is therefore available to compile. The self-assessment of competencies is also feasible, however, up-to-date skills over the past 2 years would be more relevant and useful and that needs a process of regular update. Then there is an average of less than 30 positions to fill externally and externally through retirements. For internal mobility, there would be an average of 10 per year. The question is			X	High	This activity will launch by 30.06.2023. Further activities need to be carried out in 2024, subject to the outcome of the 2024–2025 P&B	COR/LED, COR/HRS

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			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. b. Draw up an action plan to close the gaps between the actual and target level of competencies.	whether the value of building a skills inventory, regular updates of personal profiles and matching process will be higher than the cost of the exercise. With the small number of positions, this is doubtful.						
48	2021	B.6.4	**HR.** The Staff Performance Management System requires improvement. EA recommends considering the following improvements to Staff Performance Management: <u>1. Goal setting:</u> a. 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. b. Include the timely and consistent completion of mandatory trainings in every employee's personal KPIs. <u>2. Performance appraisal:</u> a. Conduct professional skills assessments of employees periodically (e.g., annually, or once every two years). b. 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. c. Perform the review of KPI progress achievement on a more frequent basis (e.g., every quarter).	A new Staff Performance Appraisal and Management System is to be implemented by the end of March 2023 that has taken into consideration the lessons learned from the past system. It is the result of the work of two working groups. It was reviewed by the Joint Advisory Committee.		X		Medium	30.06.2023	COR/HRS
49	2021	B.6.5	**HR.** The learning and development function requires improvement. EA recommends implementing the following actions to improve the learning process: 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. b. Prepare a learning budget based on the learning and development plans of the department and the employee and have a clear rationale. c. Develop an annual consolidated training plan and track its execution. d. Implement a single learning management system (LMS).	The Secretariat restructuring created a new Learning and Development Services Division, a multi-disciplinary team of 4 staff. The ToR of the new team covers the entire workforce (~2400 learners). There hasn't been increase in core financial resources for the remainder of the 2022–2023 budget, as it was approved in the 19th Session of the General Conference (Nov/Dec 2021) a. Due to these constraints, the current strategy for UNIDO's limited funds is to increase L&D opportunities for the workforce by focusing on corporate subscriptions and other large repositories of standard training, reaching a larger population of learners with a mix of curated content and self-directed learning, in all UNIDO countries of operations. b. L&D budget planning for 2024–2025 biennium remained centralized. The original submission for career development funds is closer to the UN Benchmark for L&D financial resources (2% of salary costs). Between 2019–2022, UNIDO spent in average 0.2% of salary costs in L&D (10% of benchmark) c. On Q4 2022 UNIDO ran the first corporate Learning Needs Assessment Survey (for 2023). The core L&D program for 2023 will target common priority needs uncovered by this assessment.		X		Medium	a) Timeline: 30.06.2023 b) Timeline: 2024, subject to resources c) Timeline: complete d) Timeline to consolidate internally-produced corporate e-learnings: 31.12.2024, subject to resources	COR/LED

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				d. We request this recommendation to be reviewed/rephrased. UNIDO uses, and will continue to use, learning resources from multiple sources (internal, UNIDO's own Capacity Building programs, LinkedIn Learning, UNSSC, other UN Agencies, multiple commercial partners). It makes sense is to have a single LMS for internally-produced trainings (which are few and specific to policy and process training) and/or consider implementing a new learning portal, which would in its turn help learners navigate the various sources. Our current learning portal Corporate Learning is the intranet: https://intranet.unido.org/intra/Organizational_Learning						
50	2021	B.6.6	**HR.** The knowledge management system requires improvement. EA recommends conducting the following steps to improve knowledge management at UNIDO: <u>1. People</u> a. Continue and expand practice of in-person or online regular knowledge sharing sessions, continue promoting knowledge sharing culture and Knowledge Hub. b. Set up a catalogue of lessons learned that will be discussed and updated following the knowledge sharing sessions. <u>2. Process</u> a. Appoint knowledge champions responsible for developing knowledge management strategy, improving the knowledge management module, organizing knowledge sharing sessions, and overseeing that the necessary documents are uploaded. b. Create a policy or guideline describing in detail the project hand-over process. c. Develop detailed business process charts. <u>3. Technology</u> 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.). b. Based on the survey results, improve the functionality of the existing KMC module and create a more user-friendly and intuitive folder structure. c. Organize the storage of templates in one place or incorporate necessary up-to-date templates in SAP/other relevant systems.	Comments from 2021 are still valid: 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 space 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 description 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.			X	Medium	Deadline not set	Responsible person not assigned, to be decided by DG with indication of deadlines
51	2021	B.6.7	**HR.** The recruitment process requires improvement. EA recommends 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 interview with the candidate preferred by 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).	(a) The new Success Factor is implemented to include roles and accountabilities for recruitment. (b) The recommended role of the APB in the recruitment process is not efficient nor justified particularly in terms of value additions of each step or in terms of accountabilities. The current role of the APB is framed in policy/staff rules as the over-riding check on due process of recruitment. (c) This document and other supporting documents exist. (d) The new ISA policy currently with DG for approval, establishes the recruitment process that takes into account new advertising and recruitment from a pre-screened Talent Pool. With limited HR resources managing over 2000 consultants per year, the streamlined process fulfils (a) a competitive process; (b) filling ISA positions within demanded timelines.		X		Medium	31.12.2023	COR/HRS

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	Status: I: Implemented O: Ongoing N: Not implemented			Priority	Estimated date of implementation	Responsible for the implementation
					I	O	N			
52	2021	B.6.8	**HR.** The workload of PMs is not assessed systematically. EA recommends that Management do the following: a. 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. b. 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. c. 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).	The comments in 2021 is still relevant: Due to different complexity of projects, there 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.			X	Low	31.12.2023	COR/HRS
53	2020	A 1.1.3. IDB.49/3 PBC.37/3	**Processing of manual journal entries** 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.	No System support and/or to address this recommendation; suggest moving owner under IT.			X	Medium	30.06.2024	COR/FIN/APT and COR/DIG
54	2020	A 1.1.4. IDB.49/3 PBC.37/3	**Accounting adjustments** 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.	No System support and/or to address this recommendation; suggest moving owner under IT.			X	Medium	30.06.2024	COR/FIN/APT and COR/DIG
55	2020 2019 2017	A 1.3.1. IDB.49/3 PBC.37/3 para 21 IDB.48/3 PBC.36/3 para 43 IDB.46/3– PBC.34/3	**Assessed contributions: revenue and receivables** Nearly 90 per cent of ACs is collected and spent, while the outstanding 10 per cent is refunded if not renounced by Member States. EA recommended that Management either amend FR provisions 4.2 (b), (c) to allow UNIDO use late payments of assessed contributions, or increase Working Capital Fund (WCF), so UNIDO could release budget in the amount of AC approved at General Conference. The refunds paid to Member States mislead the users of the financial statements regarding the amount of contributions that are actually available. Under the current approach, nearly 90 per cent of AC is collected and spent, while the outstanding 10 per cent is refunded if not renounced by Member States. These refunds encourage late payments and negatively influence the ability of UNIDO to use its regular budget effectively, because UNIDO is limited by the amount of funds that have been collected.	In 2022 UNIDO continued discussions and negotiations with the Member States to enhance collection of assessed contributions through the Informal Working Groups on PBC-related issues and/or retain unutilized balances of appropriations with no major changes achieved. It is suggested to change the owner to the UNIDO Member States through the IWG in PBC-related issues.		X		High	To be revisited in 2024–2025	Governing bodies
56	2020	A 1.4.1. IDB.49/3 PBC.37/3	**Completeness of capitalized assets** 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.	No IT resources allocated, to enhance SAP to capture these expenses.			X	Medium	30.09.2024	COR/FIN/APT and COR/DIG

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	Status: I: Implemented O: Ongoing N: Not implemented I	O	N	Priority	Estimated date of implementation	Responsible for the implementation
57	2020	A 1.5.1. IDB.49/3 PBC.37/3	**Accounts payables** 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 orders correctly, including proper indication of delivery date, and perform search for unrecorded liabilities by analysis of delivery date in purchase orders.	No System support and/or to address this recommendation; suggest moving owner under IT.			X	Medium	30.09.2024	COR/FIN/APT and COR/DIG
58	2020	B 1.1. IDB.49/3 PBC.37/3	**Field offices' location and functionality** 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 on the identification stage for contacting with local officials and local donor community, but also on the implementation stage, including project management and final project delivery. In order to enhance FOs involvement in technical cooperation activities and be in line with UNRC reform we recommend the following: • Perform analysis and, if necessary, reconsider FOs location in accordance with the considerations given above and inter alia including political and budgetary issues; • Assess technical skills of FOs employees and consider trainings, if necessary; • Consider implementation of individual and FO KPIs in accordance with SMART model in order to ensure monitoring of the functions indicated in ToR.	In December 2022 a proposal for a new strategy for the UNIDO field network was presented by GLO to the DG. This was followed by a proposal for restructuring of the network, which is currently under review. The strategy includes several of the elements recommended by the EA, including a stronger involvement of Field Offices in the TC cycle and a better alignment of UNIDO with the ongoing UN Reform. Also, a score card system is being developed to establish a tracking system that allows ensuring the adequate type of coverage for each country in accordance with UNIDO's positioning, volume of cooperation and the potential for funding and partnerships. The proposal has been submitted to DG's approval.		X		High	30.06.2023 – depending on the Director General/Leaders hip Board decisions	GLO
59	2020 2018	B 2.1. IDB.49/3 PBC.37/3 para 191 IDB.47/3 PBC.35/3	**Project management** The outdated methodology has already been acknowledged by Management and the response has been initiated (a new edition of integral project management guidelines is planned for 2021). There are a few points for consideration: - Plan introductory activities in advance, such as trainings to introduce the updated guidelines, informational letters to staff and comprehensive manuals for contractors and other external parties. - Organize updated guidelines and other policies and procedures related to project management in the form of an advanced online tool that is accessible worldwide with an interactive user-friendly interface, smart search system, templates of core documents, etc. - the functions and responsibilities that align with the current organizational structure, - 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, - include reporting guidelines that consider demands and requirements of the donors as well as that of the organization.	In line with newly announced internal governance structure, the mandate over issuance of business procedures has been formally entrusted with the Business Procedures Committee (BPC). An update will be provided after 30 April 2023 after the first meeting of the BPC.			X	Medium	31.12.2023	BPC
60	2020	B 2.2.1. IDB.49/3 PBC.37/3	**One-size-fits-all project management approach** Despite the variety of project types, the management approach is the same. It could be beneficial to differentiate projects and manage them based on complexity and type. EA recommended UNIDO perform a thorough analysis of: • UNIDO's portfolio to understand the different project types and develop policy covering:	In line with newly announced internal governance structure, the mandate over issuance of business procedures has been formally entrusted with the Business Procedures Committee (BPC). An update will be provided after 30 April 2023 after the first meeting of the BPC.			X	Medium	31.12.2023	BPC

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	Status: I: Implemented O: Ongoing N: Not implemented I	 O	 N	Priority	Estimated date of implementation	Responsible for the implementation
			- the scope of UNIDO's project management (i.e., what types of activities should be managed as projects); - potential project tiers (by complexity, budget, strategic importance, risks, industry, output, etc.). • Develop a project management model that recognizes different tiers and classes of projects: - Formulation, appraisal and approval mechanisms, e.g., use of less complicated workflow for standard projects; - Implementation and quality control. • Consider using agile practices in project management. For some projects, it could become an effective alternative to the standard "waterfall" (consequential) approach to preparation and delivery.							
61	2020	B 2.2.2. IDB.49/3 PBC.37/3	**Project management quality: areas for improvement** EA recommended performing the following: *Formulation, appraisal and approval process:* • Reconsider the composition and roles of reviewers, including the extent and timing of their engagement.	In line with newly announced internal governance structure, the mandate over issuance of business procedures has been formally entrusted with the Business Procedures Committee (BPC). An update will be provided after 30 April 2023 after the first meeting of the BPC.			X	High	31.12.2023	BPC
		B 2.2.2. IDB.49/3 PBC.37/3	*Internal monitoring standards and tools:* • Establish internal reporting mechanisms with defined formats, responsibilities, clear and standard performance metrics focused on quantitative and RAG indicators. • Develop portfolio progress dashboards and provide detailed descriptions of the monitoring steps required.							
		B 2.2.2. IDB.49/3 PBC.37/3	*Description of the implementation stage:* • Divide the implementation stage into several phases, including inception, core execution and closing. • Define a set of key deliverables for each phase and develop standard templates and appraisal, approval and storage procedures for these deliverables.							
		B 2.2.2. IDB.49/3 PBC.37/3	*Quality control procedures during the implementation stage* • Establish a clear matrix of deliverables that includes a set of project documents based on the complexity and type of project, highlighting "audit" documents and defining the phase when the document shall be prepared. • Perform regular quality reviews of status reports and deliverables and implementation of a stage-gate process.							
62	2020	B 4.2. IDB.49/3 PBC.37/3	**Budget transfers** 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.	With the appointment of the new Director General Gerd Müller in November 2021, the issue received new developments. The DG included the request to grant budget flexibility in his speeches to the meetings of the Governing bodies that took place in 2022, 38th session of the PBC and 50th session of the IDB. In preparation of 2024–2025 programme and budgets, the DG expended the proposal to include operational budget implementation in terms of ability to increase spending with higher income received from support cost reimbursement. In 2022 and 2023 the negotiations with MS continued also on bilateral level. In 2023, in preparation to the 39th session of the PBC, the issue of flexibility received a separate discussion item with a dedicated document being prepared by the Secretariat.		X		Low	20th session of the General Conference 27 Nov to 1 Dec 2023	COR/FIN

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No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	Status: I: Implemented O: Ongoing N: Not implemented			Priority	Estimated date of implementation	Responsible for the implementation
					I	O	N			
63	2020	C 2.3. IDB.49/3 PBC.37/3	**Vulnerability management process needs improvement** 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.	IN PROGRESS. A pen-test (red team exercise) has been conducted in January 2023. A documented procedure is being developed on the identification, assessment, prioritization and treatment of vulnerabilities. The vulnerability management tool is in evaluation phase (decision on type of procurement).		X		Medium	30.09.2023	COR/DIG
64	2020	C 2.4. C 2.5. IDB.49/3 PBC.37/3	**Access was gained to sensitive data from internal information exchange service. Penetration test** **• External Auditor** 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.	a) MFA has been enabled for all services consumed via UNIDO SSO; authentication for the services has been migrated to Azure AD, including SSO (approx. 20 services including OpenText*, SAP, Service Portal, Learning etc.). As of 9 March 2023, 1,721 UNIDO users (~82 per cent) are MFA capable. b) Credential Guard in course of implementation for all endpoints/servers c) Performed a review of domain admin group privileges (removal of all service accounts and configuration for these based on need to know/least privilege principle); d) LAPS in course of testing piloting (Local Administrator Password Service – individual administrator accounts for each computer) e) xFiles is being decommissioned in March 2023; the replacement is OneDrive, which includes central logging and MFA f) Captcha issues have been addressed where technically possible in UNIDO websites such as official website, HUB etc. g) New capabilities to detect compromised accounts based on extracted IOCs from previous incidents have been set up at Exchange level; h) Active dark web monitoring regarding UNIDO and a response; i) Typo squatting domains monitoring; j) Microsoft 365 Defender console monitoring for security alerts and incidents identified via automatic processes part of Azure AD (Identify Protection, Risky Users etc.) (*) Activation of SSO for OpenText delayed to end of March We suggest this recommendation to be closed. Further improvements in cybersecurity will be performed in accordance with the approved Risk Treatment Plan and the action plan of the Task Force on Security Improvements.		X		Medium	C.2.4 to be closed after xFiles is fully decommissioned to all users. This is pending due to the ongoing migration of Finance specific business cases (Finance Donor reporting and Payroll Processing) to MS. Teams to be completed by 30.06.2023 C.2.5 can be closed as discussed with the EA	COR/DIG
	2020	C 2.4. C 2.5. IDB.49/3 PBC.37/3	These following recommendations have the highest priority: • address the technical vulnerabilities described in detailed report;							
	2020	C 2.4. C 2.5. IDB.49/3 PBC.37/3	• improve security on the xfiles.unido.org service with additional technical controls.							
	2020	C 2.4. C 2.5. IDB.49/3 PBC.37/3	These recommendations have the second highest priority: • implement set of measures to prevent password guessing (like CAPTCHA-test);							
	2020	C 2.4. C 2.5. IDB.49/3 PBC.37/3	• improve or implement detection and response capabilities (like EDR, IDS/IPS, SOC);							
	2020	C 2.4. C 2.5. IDB.49/3 PBC.37/3	• start a vulnerability assessment and incident management program.							
65	2019	para 37 IDB.48/3 PBC.36/3	**Long-term liabilities –After Service Health Insurance** Continue deliberations in 2020 and come up with a proposal, comparable with other funding models within the United Nations system, where a partial funding is set up to counter the risk of pay-as-you-go scheme, for discussion with the governing bodies. Actions should be time-bound to implement the recommendations.	The comments in 2021 is still relevant: 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.			X	Medium	To be revisited in 2024–2025	Governing bodies
	2018	para 37 IDB.47/3– PBC.35/3								

No	Audit report year	Report reference	Recommendation of the External Auditor	UNIDO's response	Status: I: Implemented O: Ongoing N: Not implemented			Priority	Estimated date of implementation	Responsible for the implementation
					I	O	N			
66	2019	para 63 IDB.48/3 PBC.36/3	**IPSAS Compliance** Update the 2014 Edition of the UNIDO Policy Manual for IPSAS in 2020 to incorporate all IPSASs that have become effective as of December 2019.	Work-in-progress; pending APT work-priorities		X		Low	31.12.2023	COR/FIN/APT
67	2018	para 177 IDB.47/3 PBC.35/3	**Corporate results monitoring and reporting framework** EA recommended that UNIDO improve on its corporate results monitoring and reporting process by: a) Enhancing the use of the IRPF as the corporate programme results monitoring and reporting framework; b) Crafting a corporate result monitoring and reporting framework in collaboration with the directorates, departments, divisions, FOs, and programme implementers to enable a comprehensive, transparent, reliable and evidence-based assessment of progress on the achievement of planned results that translate to full accounting of results; and c) Formulating guidance that supports the delivery of the monitoring and reporting framework that require complete and with better clarity and reliability to facilitate effective results review and reporting.	In line with newly announced internal governance structure, the mandate over issuance of business procedures has been formally entrusted with the Business Procedures Committee (BPC), recommendation is pending. An update will be provided after 30 April 2023 after the first meeting of the BPC.		X		High	31.12.2023	ODG/SPU, IET/QUA

ANNEX 1. FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Report by the Director General

1. I am pleased to present the 2022 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 first year of previous biennium, are shown below in millions of euros.

Table 1
Assessed contributions

	2022		*2020*	
	Millions of euros	*Percentage*	*Millions of euros*	*Percentage*
Assessed contributions receivable	70.9	100.0%	69.5	100.0%
Received by the end of biennium	63.0	88.9%	60.1	86.5%
Shortfall in collections	7.9	11.1%	9.4	13.5%

3. The rate of collection of assessed contributions for the year 2022 was 88.9 per cent, which is higher than that for 2020 (first year of previous biennium) at 86.5 per cent. The accumulated outstanding assessed contributions at year-end were €27.2 million, excluding an amount of €71.2 million due from former Member States, leading to an increase from 2021 (€23.9 million). Annex I (e), contained in conference room paper PBC.39/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 42 in December 2022 – in comparison to 38 in December 2021.

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 2022.

6. The comparison is based on the programme and budgets for the year 2022, as adopted by the General Conference at its nineteenth session (decision GC.19/Dec.16), consisting of a regular budget annual gross expenditure of €72.1 million to be financed from assessed contributions in the amount of €70.0 million and from other income, efficiency gains and all available resources of €2.1 million.

7. On a budget basis, the actual regular budget expenditure during the year 2022 amounted to €66.5 million (compared with €64.2 million for the year 2020), or 92.1 per cent (compared with 90.0 per cent for the year 2020) of the approved gross expenditure budget.

8. The actual collection of other income for the year 2022 amounted to €2.2 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 €64.2 million represents 91.8 per cent of the net regular budget appropriations of €70.0 million. The resulting balance of net appropriations as at 31 December 2022 amounted to €5.8 million (see annex I (a) and I (b), PBC.39/CRP.4).

9. In the operational budget for the year 2022, the reimbursement for programme support costs amounted to €18.2 million (for 2021: €19.8 million). Expenditure was recorded in the amount of €18.4 million (for 2021: €17.3 million), resulting in a deficit in the amount of €0.2 million (2021: surplus of €2.5 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 €27.3 million, compared with an opening balance of €27.5 million, along with a statutory operating reserve of €3.0 million. Through cost recovery, the Organization generated €2.6 million in 2022 (2021: €2.7 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 2022, as measured under IPSAS, amounted to €218.0 million in expenditure, compared to €175.3 million in 2021. More information on UNIDO's technical cooperation services is available in the *Annual Report of UNIDO 2022* (PBC.39/2–IDB.51/2).

11. The cash balance of €390.1 million (2021: €365.3 million), for technical cooperation, augurs well for the Organization's future implementation. However, in respect of the regular budget, non- or delayed payment of assessed contributions inhibits the implementation of approved regular budget programmes.

Governance structure

12. As prescribed in its Constitution, UNIDO has three 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 Oversight Advisory Committee (OAC) since 2017, the governance and independence of the oversight functions in UNDO has been strengthened as provided in Board decision IDB.48/Dec.5. 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 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. The year 2022 was a difficult one for all of us. The consequences of the COVID-19 pandemic, the increasingly visible effects of climate change, and the conflict in Ukraine – they all hit the poorest of the poor the hardest. International solidarity is necessary to solve these global challenges. The international community knows what needs to be done and what the solutions are. We have the technologies and the knowledge to create a world without hunger, to protect the planet and to limit climate change. To more effectively play its role, UNIDO implemented an ambitious organizational reform in 2022. We are setting new priorities in cooperation with our Member States. Going forward, UNIDO will make progress in the development of new partnerships with the private sector and financial institutions, while strengthening the close collaboration with our Member States.

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

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2022**

Responsibility for financial statements and certification

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

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

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

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	Liliya Sydorenko Chief, Corporate Services and Operations, Finance

Vienna, 31 March 2023

UNIDO
Statement 1: Statement of financial position as at 31 December 2022
(*Thousands of euros*)

	Note	31 December 2022	31 December 2021 (restated)
		€ '000	*€ '000*
ASSETS			
Current assets			
Cash and cash equivalents	*2*	488,876	454,449
Accounts receivable (non-exchange transactions)	*3*	149,002	107,382
Receivables from exchange transactions	*3*	4,038	2,155
Inventory	*4*	802	752
Other current assets	*5*	27,957	24,103
Total current assets		**670,675**	**588,841**
Non-current assets			
Accounts receivable (non-exchange transactions)	*3*	132,117	139,607
Property, plant and equipment	*7*	61,231	71,347
Intangible assets	*8*	567	703
Other non-current assets	*9*	6,069	3,701
Total non-current assets		**199,984**	**215,358**
TOTAL ASSETS		**870,659**	**804,199**
LIABILITIES			
Current liabilities			
Accounts payable (exchange transactions)	*10*	11,808	13,313
Employee benefits	*11*	11,938	11,184
Transfers payable (non-exchange transactions)	*10*	26,948	29,617
Advance receipts and deferred income	*12*	87,490	75,605
Other current and financial liabilities	*13*	31,107	30,190
Total current liabilities		**169,291**	**159,909**
Non-current liabilities			
Employee benefits	*11*	160,095	243,817
Other non-current liabilities	*13,22*	28,288	29,855
Total non-current liabilities		**188,383**	**273,672**
TOTAL LIABILITIES		**357,674**	**433,581**
NET ASSETS			
Accumulated surpluses/(deficits) and fund balances	*14*	491,668	349,733
Reserves	*15*	21,317	20,885
TOTAL NET ASSETS		**512,985**	**370,618**
TOTAL LIABILITIES AND NET ASSETS		**870,659**	**804,199**

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

UNIDO
Statement 2: Statement of financial performance for the year ended 31 December 2022
(*Thousands of euros*)

	Note	31 December 2022	31 December 2021 (restated)
		€ ‘000	*€ ‘000*
REVENUE			
Assessed contributions	*16*	70,928	69,462
Voluntary contributions	*16*	235,938	166,376
Investment revenue	*16*	645	674
Revenue producing activities	*16*	22,747	21,757
Other income	*16*	2,581	2,678
TOTAL REVENUE		**332,839**	**260,947**
EXPENDITURE			
Personnel costs and benefits	*17*	141,229	129,754
Operational costs	*17*	39,951	32,242
Contractual services	*17*	91,796	84,848
TC equipment expensed	*17*	27,124	10,986
Depreciation and amortization	*17*	6,731	7,767
Other expenses	*17*	3,145	2,206
TOTAL EXPENDITURE		**309,976**	**267,803**
Operating Surplus/(Deficit)		**22,863**	**(6,856)**
Currency translation gains/(losses)	*17*	31,704	31,084
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD		**54,567**	**24,228**

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 2022
(*Thousands of euros*)

	Note	Accumulated surplus/(deficit)	Reserves	Total net assets
			€ '000	
Net assets as at 31 December 2020		**326,472**	**19,952**	**346,424**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities		7,065		7,065
Transfer to/(from) reserves			933	933
Other movements recognized directly in net assets		(273)		(273)
Separate recognition of income and expenses for UNDP projects (restatement)	23	1,008		1,008
Net movements recognized directly in net assets		**7,800**	**933**	**8,733**
Credits to Member States		(8,767)		(8,767)
Net surplus/(deficit) for the year (restated)		24,228		24,228
Total movement during the year		**23,261**	**933**	**24,194**
Net assets as at 31 December 2021 (restated)	14,15	**349,733**	**20,885**	**370,618**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities	11,14	89,463		89,463
Transfer to/(from) reserves	15		432	432
Other movements recognized directly in net assets	14	(26)		(26)
Net movements recognized directly in net assets	14,15	**89,437**	**432**	**89,869**
Credits to Member States	14,15	(2,069)		(2,069)
Net surplus/(deficit) for the year		54,567		54,567
Total movement during the year		**141,935**	**432**	**142,367**
Net assets as at 31 December 2022		**491,668**	**21,317**	**512,985**

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

UNIDO
Statement 4: Cash flow statement for the year ended 31 December 2022
(*Thousands of euros*)

	Note	31 December 2022	31 December 2021 (restated)
		€ ‘000	*€ ‘000*
Cash flows from operating activities			
Surplus/(deficit) for the period		**54,567**	**24,228**
Unrealized foreign exchange (gains)/losses		(19,743)	(28,470)
Depreciation and amortization	7,8	6,731	7,767
Credits to Member States	14	(2,069)	(8,767)
Valuation gains/(losses) on employee benefit liabilities	14	89,463	7,065
(Increase)/decrease in inventories	4	(50)	48
(Increase)/decrease in receivables	3	(36,013)	(34,717)
(Increase)/decrease in other assets	5	(6,222)	(3,374)
Increase/(decrease) in advance receipts and deferred income	12	11,885	15,635
Increase/(decrease) in accounts payable	10	(4,174)	7,342
Increase/(decrease) in employee benefits	11	(82,968)	(141)
Increase/(decrease) in other liabilities and provisions	13	(650)	12,146
(Gains)/losses on sale of property, plant and equipment	7	24,400	12,326
Investment/interest income (net)	16	(2,158)	1,001
Transfers to reserves	14,15	432	933
Other movements		(26)	735
Net cash flows from operating activities		**33,405**	**13,757**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(20,819)	(24,981)
Purchase of intangible assets	8	(91)	(282)
Proceeds from sale of property, plant and equipment	7	31	21
Net cash flow from investments interest		2,158	(1,001)
Net cash flows from investing activities		**(18,721)**	**(26,243)**
Net increase/(decrease) in cash and cash equivalents		**14,684**	**(12,486)**
Cash and cash equivalents at beginning of the financial period		454,449	438,465
Unrealized foreign-exchange gains/(losses)		19,743	28,470
Cash and cash equivalents at the end of the financial period	2	**488,876**	**454,449**

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 2022
(*Thousands of euros*)

Regular budget	*Note*	Original budget	Final budget	Actuals on comparable basis	Balance
				€ '000	
Income					
Assessed contributions	*16*	70,001	70,928	70,928	-
Regional programme		533	533	346	187
Miscellaneous income		1,610	1,610	1,905	(295)
Total income		**72,144**	**73,071**	**73,179**	**(108)**
Cost component					
Staff costs		47,735	47,735	46,995	740
Official travel		778	778	420	358
Operating costs		15,123	15,123	12,072	3,051
Information and communication technology		3,798	3,798	2,412	1,386
Regular programme of technical cooperation, and special resources for Africa		4,710	4,710	4,580	130
Total costs		**72,144**	**72,144**	**66,479**	**5,665**
Balance for the period		**-**	**927**	**6,700**	**(5,773)**

Operational budget	Original budget	Final budget	Actuals on comparable basis	Balance
			€ '000	
Income				
Support costs income	19,881	19,881	17,019	2,862
Miscellaneous income	50	50	1,159	(1,109)
Total income	**19,931**	**19,931**	**18,178**	**1,753**
Cost component				
Staff costs	18,014	18,014	17,534	480
Official travel	1,746	1,746	564	1,182
Operating costs	171	171	40	131
Total costs	**19,931**	**19,931**	**18,138**	**1,793**
Balance for the period	**-**	**-**	**40**	**(40)**

Total	Note	Original budget	Final budget	Actuals on comparable basis	Balance
		€ '000			
Income					
Assessed contributions		70,001	70,928	70,928	-
Support costs income		19,881	19,881	17,019	2,862
Regional programme		533	533	346	187
Miscellaneous income		1,660	1,660	3,064	(1,404)
Total income		**92,075**	**93,002**	**91,357**	**1,645**
Cost component					
Staff costs		65,749	65,749	64,529	1,220
Official travel		2,524	2,524	984	1,540
Operating costs		15,294	15,294	12,112	3,182
Information and communication technology		3,798	3,798	2,412	1,386
Regular programme of technical cooperation, and special resources for Africa		4,710	4,710	4,580	130
Total costs	18	**92,075**	**92,075**	**84,617**	**7,458**
Balance for the period		**-**	**927**	**6,740**	**(5,813)**

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 (2021: 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 implements technical cooperation activities along with the updated Medium-term Programme Framework (MTPF 2022–2025) especially in the priority arears of climate and environmental protection, food security and renewable energies. 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 (48 in 2021), 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 2022 and ending on 31 December 2022.

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 counter-party risk. The Organization does not use any hedging instruments to hedge risk exposures.

- Currency risk. The Organization receives contributions from Member States and donors partly in currencies other than the currency of the expenditure and is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. 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 counter-parties are generally of high credit standing.

- Counter-party risk. The Organization has its cash deposited with various banks and is therefore exposed to the risk that a bank might default in its obligation towards the Organization. However, UNIDO has policies that limit the amount of exposure to any one financial institution. 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:

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

Intangible assets

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

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

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

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

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

Leases

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

Interests in joint arrangements and other entities

1.43 These general purpose financial statements include the applicable share of the joint arrangements established by a memorandum of understanding concerning the allocation of the common services at the Vienna International Centre entered into by the Vienna-based organizations in 1977. The common services include catering, buildings management, the Commissary, security and medical services and other services. The Organization is party to a joint arrangement with the United Nations, the International Atomic Energy Agency 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.

(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 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 new standard on financial instruments – IPSAS 41, becomes effective 1 January 2023 and replaces previous IPSAS 29. IPSAS 41 improves the relevance of information for financial assets and financial liabilities, including but not limited to classification and measurement requirements. UNIDO will apply IPSAS 41, as required, retrospectively with allowed exceptions. The key impact on UNIDO’s accounting will be forward looking impairment model that may lead to changes in amount of allowance for doubtful accounts based on expected credit losses.

In addition, the IPSAS Board has published IPSAS 43, Leases and IPSAS 44 Non-current assets held for sale and discontinued operations. UNIDO will be adopting the new standards, as required, effective 1 January 2025 and believes that the adoption of this standard will have no major impact on the financial statements.

Note 2. Cash and cash equivalents

	Note	*31 December 2022*	*31 December 2021*
		(thousands of euros)	
Cash and cash equivalents			
Cash in the bank and on hand		49,104	96,682
Short-term deposits	2.4	436,487	354,159
Cash and cash equivalents held in field offices	2.5	3,285	3,608
Total cash and cash equivalents	**2.1**	**488,876**	**454,449**

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 €390,090 (2021: €365,796), for Buildings Management Service activities €44,776 (2021: €44,293) and for the Major Repair and Replacement Fund €885 (2021: €1,021).

2.2 Cash and cash equivalents include cash and short-term deposits equivalent to €241,778 (2021: €230,852) 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 €2,611 (2021: €2,740) 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 0.25 per cent and 1.73 per cent for holdings in euros and United States dollars respectively (2021: 0.03 per cent and 0.22 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 2022	*31 December 2021 (restated)*
	(thousands of euros)	
Current		
Receivable from non-exchange transactions		
Voluntary contributions receivable	135,149	95,347
Due from Member States: assessed contributions	98,266	94,693
VAT and other taxes recoverable	2,937	2,325
Due from Member States: other	25	25
Total accounts receivable before allowance	**236,377**	**192,390**
Allowance for doubtful accounts	(87,375)	(85,008)
Net accounts receivable from non-exchange transactions	**149,002**	**107,382**

	31 December 2022	*31 December 2021*
	(thousands of euros)	
Receivable from exchange transactions		
Receivables from United Nations organizations	2,763	1,114
Receivables: other	1,952	1,718
Allowance for doubtful accounts	(677)	(677)
Net accounts receivable from exchange transactions	**4,038**	**2,155**

	31 December 2022	*31 December 2021 (restated)*
	(thousands of euros)	
Non-current		
Receivable from non-exchange transactions		
Voluntary contributions receivable	132,117	139,607
Due from Member States: assessed contributions	100	322
Allowance for doubtful accounts: assessed contributions	(100)	(322)
Total receivable from non-exchange transactions	**132,117**	**139,607**

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

Length of time contributions were outstanding	*2022* (*percentage)*	*2021* (*percentage)*
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 2022	*31 December 2021*
	(thousands of euros)	
Allowance for bad and doubtful accounts at the beginning of the year	**83,403**	**82,022**
Charge of allowance for the year	1,887	1,381
Allowance for bad and doubtful accounts at the end of the year	**85,290**	**83,403**

3.3 Total allowances for bad and doubtful accounts of €88,152 (2021: €86,006) consist of €85,290 (2021: €83,403) against assessed contributions receivable and €2,862 against other receivables and tax claims (2021: €2,603). 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 expected 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.39/CRP.2 provides details of the status of assessed contributions, and the following table illustrates ageing of contributions receivable:

	31 December 2022		*31 December 2021*	
	(thousands of euros)	*(percentage)*	*(thousands of euros)*	*(percentage)*
Age				
1–2 years	15,143	15.4	14,039	14.8
3–4 years	5,265	5.4	3,391	3.6
5–6 years	1,848	1.9	2,143	2.3
7 years and more	76,110	77.3	75,442	79.3
Total contributions receivable before allowance	**98,366**	**100.0**	**95,015**	**100.0**

Note 4. Inventories

	31 December 2022	*31 December 2021*
	(thousands of euros)	
Opening inventory	752	800
Purchased during the year	318	375
Total inventory available	**1,070**	**1,175**
Less: consumption	(265)	(308)
Less: write-up/(down)	(3)	(115)
Closing inventory	**802**	**752**

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

	Note	31 December 2022	31 December 2021
		(thousands of euros)	
Advances to vendors	5.1	22,067	20,126
Advances to staff	5.2	2,879	2,413
E-IOV items	5.3	945	1,386
Other		2,066	178
Total other assets		**27,957**	**24,103**

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:

2022	14.490 per cent
2021	14.528 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 2022 *(thousands of euros)*	*31 December 2021* *(thousands of euros)*
Income	15,503	15,093
Expenses	15,503	15,093
Assets, non-current	209,019	216,957
Liabilities, non-current	209,019	216,957
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.

The following table summarizes Major Repair and Replacement Fund financial information.

	31 December 2022 *(thousands of euros)*	*31 December 2021* *(thousands of euros)*
Income	5,335	5,140
Expenses	5,467	6,358
Assets, current	13,722	14,749
Liabilities, current	1,972	2,867
Net assets	11,750	11,882

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 2022	*31 December 2021*
	(thousands of euros)	*(thousands of euros)*
Income	26,538	25,207
Expenses	25,727	24,804
Assets, current	50,360	47,547
Assets, non-current	1,468	1,270
Liabilities, current	23,016	22,037
Liabilities, non-current	19,149	28,989
Net assets	9,662	(2,209)

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 2022 constituted €2,294 (2021: €2,149).

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 €2,239 and €256 (2021: 2,162 and €248), respectively.

Note 7. Property, plant and equipment

	TC Construction in progress	*Buildings*	*Furniture and fixtures*	*Information and communications technologies equipment*	*Vehicles*	*Machinery*	***Total***
	(thousands of euros)						
Cost							
At 31 December 2020	5,303	73,928	3,360	15,928	4,261	30,056	**132,836**
Additions	10,850	1,154	505	1,397	811	10,263	**24,980**
Impact of change in VIC cost-sharing ratio	-	61	-	-	-	-	**61**
Disposals/transfers	(5,303)	(268)	(1,324)	(1,400)	(600)	(7,271)	**(16,166)**
At 31 December 2021	**10,850**	**74,875**	**2,541**	**15,925**	**4,472**	**33,048**	**141,711**
Accumulated depreciation							
At 31 December 2020	-	41,397	1,471	13,298	2,254	8,161	**66,581**
Depreciation charge during the year	-	1,923	342	1,186	469	3,666	**7,586**
Impact of change in VIC cost-sharing ratio	-	34	-	-	-	-	**34**
Disposals/transfers	-	-	(434)	(830)	(224)	(2,349)	**(3,837)**
At 31 December 2021	**-**	**43,354**	**1,379**	**13,654**	**2,499**	**9,478**	**70,364**
Net book value							
At 31 December 2020	**5,303**	**32,531**	**1,889**	**2,630**	**2,007**	**21,895**	**66,255**
At 31 December 2021	**10,850**	**31,521**	**1,162**	**2,271**	**1,973**	**23,570**	**71,347**

	TC Construction in progress	*Buildings*	*Furniture and fixtures*	*Information and communications technologies equipment*	*Vehicles*	*Machinery*	***Total***
	(thousands of euros)						
Cost							
At 31 December 2021	10,850	74,875	2,541	15,925	4,472	33,048	**141,711**
Additions	10,185	1,183	335	1,530	819	6,768	**20,820**
Impact of change in VIC cost-sharing ratio	-	(196)	-	-	-	-	**(196)**
Disposals/transfers	(10,850)	(383)	(531)	(794)	(564)	(18,401)	**(31,523**
At 31 December 2022	**10,185**	**75,479**	**2,345**	**16,661**	**4,727**	**21,415**	**130,812**
Accumulated depreciation							
At 31 December 2021	-	43,354	1,378	13,654	2,500	9,478	**70,364**
Depreciation charge during		1,950	226	1,239	485	2,634	**6,534**
Impact of change in VIC cost-sharing ratio		(113)	-	-	-	-	**(113)**
Disposals/transfers		-	(171)	(604)	(231)	(6,198)	**(7,204)**
At 31 December 2022	**-**	**45,191**	**1,433**	**14,289**	**2,754**	**5,914**	**69,581**
Net book value							
At 31 December 2021	**10,850**	**31,521**	**1,163**	**2,271**	**1,972**	**23,570**	**71,347**
At 31 December 2022	**10,185**	**30,288**	**912**	**2,372**	**1,973**	**15,501**	**61,231**

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 2022, 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 €5,431 (2021: €5,805) at the period end.

7.4 The asset class Buildings includes UNIDO share of assets under construction of the Vienna International Centre of €279 (2021: €384), 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)		
Costs			
At 31 December 2020	1,789	5,404	**7,193**
Additions	274	9	**283**
Disposals/transfers	(195)	(66)	**(261)**
At 31 December 2021	**1,868**	**5,347**	**7,215**
Accumulated amortization			
At 31 December 2020	1,181	5,366	**6,547**
Amortization charge during the year	176	2	**178**
Disposals/transfers	(183)	(30)	**(213)**
At 31 December 2021	**1,174**	**5,338**	**6,512**
Net book value			
At 31 December 2020	**608**	**38**	**646**
At 31 December 2021	**694**	**9**	**703**

	Software acquired externally	*Internally developed software*	*Total*
	(thousands of euros)		
Costs			
At 31 December 2021	1,868	5,347	**7,215**
Additions	92	-	**92**
Disposals/transfers	(41)	(9)	**(50)**
At 31 December 2022	**1,919**	**5,338**	**7,257**
Accumulated amortization			
At 31 December 2021	1,174	5,338	**6,512**
Amortization charge during the year	197	-	**197**
Disposals/transfers	(19)	-	**(19)**
At 31 December 2022	**1,352**	**5,338**	**6,690**
Net book value			
At 31 December 2021	**694**	**9**	**703**
At 31 December 2022	**567**	**-**	**567**

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 2022, the review indicated no impairments.

Note 9. Other non-current assets

		31 December 2022	*31 December 2021 (restated)*
	Note	*(thousands of euros)*	
Advances for property, plant and equipment		5,259	2,892
Initial advance in Commissary		809	809
Other non-current assets		1	-
Total, non-current assets		**6,069**	**3,701**

Note 10. Accounts payable

		31 December 2022	*31 December 2021*
	Note	*(thousands of euros)*	
Payables from exchange transactions			
Due to Vienna-based organizations	10.1	9,105	9,105
Payables to vendors	10.2	2,703	4,208
Total payables from exchange transactions		**11,808**	**13,313**
Payables from non-exchange transactions			
Due to Member States	10.3	10,702	17,109
Payables to donors	10.4	16,246	12,508
Total payables from non-exchange		**26,948**	**29,617**
Total accounts payable		**38,756**	**42,930**

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 2022			
		Actuarial valuation	*UNIDO valuation*	*Total*	*31 December 2021*
		(thousands of euros)			
Short-term employee benefits	11.2		11,938	11,938	11,184
Post-employment benefits	11.3	155,064		155,064	237,389
Other long-term employee benefits	11.7	5,031		5,031	6,428
Total employee benefit liabilities		**160,095**	**11,938**	**172,033**	**255,001**

	31 December 2022	*31 December 2021*
	(thousands of euros)	
Composition:		
Current	11,938	11,184
Non-current	160,095	243,817
Total employee benefit liabilities	**172,033**	**255,001**

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 2022. 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 2022:

- *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*. 3.75 per cent (2021: 1.21 per cent) for after-service health insurance and 3.82 per cent (2021: 0.67 per cent) for repatriation, annual leave and end-of-service allowance.
- *Medical cost trend rates*. 4.15 per cent for Euro, 3.85 percent for United States Dollar (2021: 3.75 per cent (Euro) 3.95 per cent (United States Dollar)).
- *Rate of salary increase*. 2.00 per cent (2021: 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*. 2.5 per cent (2021: 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	30,148	(23,380)
Effect on combined service and interest cost	2,538	(1,886)

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	(23,259)	30,612
Effect on combined service and interest cost	(651)	791

Reconciliation of defined benefit obligation

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*End-of-service allowance*	*Total*
	(thousands of euros)				
Defined benefit obligation at 31 December 2021	**222,247**	**10,933**	**7,087**	**10,213**	**250,480**
Service costs	8,203	382	613	588	**9,786**
Interest costs	2,711	69	46	64	**2,890**
Actual gross benefit payments	(3,769)	(1,166)	(815)	(669)	**(6,419)**
Actuarial (gains)/losses arising from third party funded activities					**-**
Actuarial (gains)/losses arising from changes in demographic assumptions	(974)	2	(4)	(2)	**(978)**
Actuarial (gains)/losses arising from experience adjustments	(14,283)	778	398	(107)	**(13,214)**
Actuarial (gains)/losses arising from changes in financial assumptions	(79,922)	(2,896)	(1,624)	(2,453)	**(86,895)**
The effect (gain)/losses of changes in foreign exchange rates	10,836	524	264	-	**11,624**
Defined benefit obligation at 31 December 2022	**145,049**	**8,626**	**5,965**	**7,634**	**167,274**

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

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 2022, UNIDO's contribution payments to the UNJSPF amounted to €12,467 (2021: €11,165). 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 2021. The consulting actuary concluded that there was no requirement, as of 31 December 2021, for deficiency payments under Article 26 of the Regulations of the UNJSPF.

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

Note 12. Advance receipts and deferred income

	Note	*31 December 2022*	*31 December 2021 (restated)*
		(thousands of euros)	
Advances from non-exchange transactions			
Performance obligation for voluntary contributions agreements	12.1	56,259	44,314
Voluntary contributions in advance	12.2	21,253	24,913
Assessed contributions in advance		2,764	334
Advances from non-exchange transactions		**80,276**	**69,561**
Advances from exchange transactions			
Advances to BMS from Vienna-based organizations		7,214	6,044
Total advance receipts and deferred income		**87,490**	**75,605**

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.

Note 13. Other liabilities

	Note	31 December 2022	31 December 2021 (restated)
		(thousands of euros)	
Other current liabilities			
Accruals for goods/services received not invoiced		27,721	27,615
Other liabilities	13.1	3,386	2,575
Total other current liabilities		**31,107**	**30,190**
Other non-current liabilities			
Deferred income – Vienna International Centre performance obligation	13.2	27,964	29,533
Long-term guarantees – bank/rent deposit		324	322
Total other non-current liabilities		**28,288**	**29,855**

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:

	2022	2021
	(thousands of euros)	
VIC net book value at the beginning of the period	29,533	30,844
Additions to the VIC buildings	604	886
VIC buildings depreciation	(1,919)	(1,923)
Change in cost-sharing ratio	82	27
Change in book value of self-financed leasehold improvements	(336)	(301)
VIC performance obligation at the end of the period	**27,964**	**29,533**

Note 14. Fund balances

	Regular budget funds					
	General fund	Regular programme of technical cooperation	Working Capital Fund	Technical cooperation funds	Other funds	Total
	(thousands of euros)					
Balance as at 31 December 2020	**(179,683)**	**6,373**	**7,423**	**506,377**	**(14,018)**	**326,472**
Net surplus/(deficit) for the year (restated)	(283)	738	-	22,827	946	**24,228**
Subtotal	**(179,966)**	**7,111**	**7,423**	**529,204**	**(13,072)**	**350,700**
Movements during year						
Credits to Member States	(8,767)	-	-	-	-	**(8,767)**
Transfer (to)/from provision for delayed contribution	-	-	-	-	-	**0**

	Regular budget funds					
	General fund	*Regular programme of technical cooperation*	*Working Capital Fund*	*Technical cooperation funds*	*Other funds*	*Total*
	(thousands of euros)					
Actuarial gains/(losses)	2,704	-	-	(1,112)	5,473	**7,065**
Consolidation adjustments	(273)	-	-	-	-	**(273)**
Separate recognition of income and expenses for UNDP projects (restatement)				1,008		**1,008**
Total movements during year	**(6,336)**	**0**	**0**	**(104)**	**5,473**	**(967)**
Balance as at 31 December 2021	**(186,302)**	**7,111**	**7,423**	**529,100**	**(7,599)**	**349,733**
Net surplus/(deficit) for the year	16,831	(531)	-	39,615	(1,348)	**54,567**
Subtotal	**(169,471)**	**6,580**	**7,423**	**568,715**	**(8,947)**	**404,300**
Movements during year						
Credits to Member States	(2,069)	-	-	-	-	**(2,069)**
Transfer (to)/from provision for delayed contribution	-	-	-	-	-	**-**
Actuarial gains/(losses)	58,188	-	-	4,437	26,838	**89,463**
Other adjustments	(26)	-	-	-	-	**(26)**
Total movements during year	**56,093**	**-**	**-**	**4,437**	**26,838**	**87,368**
Balance as at 31 December 2022	**(113,378)**	**6,580**	**7,423**	**573,152**	**17,891**	**491,668**

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 €160,095 (2021: €243,817).

14.2 Credits to Member States represent late payments for prior bienniums.

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.

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

	Note	1 January 2022	Movements during the year	Net surplus/(deficit) for the year	31 December 2022
		(thousands of euros)			
Computer Model for Feasibility Analysis and Reporting fund	14.6	**239**	-	79	**318**
Operational budget	14.7	**(8,961)**	15,777	(2,123)	**4,693**
Special Account of Voluntary Contributions for Core Activities	14.8	**287**	-	135	**422**
Major Capital Investment Fund	14.9	**2,167**	-	(228)	**1,939**
Regular budget supplementary appropriation: Vienna International Centre security	14.10	**575**	-	-	**575**
Sales publication revolving fund	14.11	**303**	-	(20)	**283**
Buildings Management Services	14.12	**(2,209)**	11,060	810	**9,661**
Total		**(7,599)**	**26,837**	**(1,347)**	**17,891**

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 extra-budgetary 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 fund balance contains unfunded future liabilities accrued from employee benefits of €19,614 (2021: €33,487).

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

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

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

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

14.12 Buildings Management Services are responsible for the operation and management of the physical plant of the premises of the Vienna International Centre, with UNIDO assigned as the operating agency on behalf of the Vienna-based organizations (Note 6.8–6.9).

Note 15. Reserves

	Note	1 January 2022	Movement during the year	31 December 2022
		(thousands of euros)		
Project personnel separation reserve	15.1	2,251	169	2,420
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	5,682	558	6,240
Reserve for exchange rate fluctuations	15.6	3,929	(295)	3,634
Total		**20,885**	**432**	**21,317**

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

2022 was €2,040 (2021: €2,040). 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 €1,594 (2022: €1,889).

Note 16. Revenue

	Note	*31 December 2022*	*31 December 2021 (restated)*
		(thousands of euros)	
Assessed contributions	**16.1**	**70,928**	**69,462**
Voluntary contributions			
For technical cooperation		235,502	165,662
For support to regular activities		436	714
Subtotal, voluntary contributions	**16.2**	**235,938**	**166,376**
Investment revenue	**16.3**	**645**	**674**
Revenue producing activities			
Contribution to the Buildings Management Services	16.4	21,202	20,514
Revenue from ad-hoc VIC projects		1,371	949
Sales publications		5	67
Computer Model for Feasibility Analysis and Reporting		153	84
Other sales		16	143
Subtotal, revenue producing activities	**16.5**	**22,747**	**21,757**
Miscellaneous income			
Transfer to reserve for exchange fluctuation	**16.6**	-	(80)
Release of performance obligation for the Vienna International Centre	**16.7**	1,950	1,923
Contribution in kind – Vienna International Centre land	**16.8**	296	269
Other miscellaneous income	**16.9**	335	566
Subtotal, miscellaneous income		**2,581**	**2,678**
TOTAL REVENUE		**332,839**	**260,947**

16.1 The General Conference approved an amount of €141,856 for the regular budget for the biennium 2022–2023 (decision GC.19/Dec.16), which is financed from assessed contributions by Member States. Accordingly, the amount of €70,928 represents one-half of the biennial amount assessed for 2022. 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 €3,549 (2021: €3,886) 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 2022	*31 December 2021*
	(thousands of euros)	
Contributions of services in kind for the use of:		
Personnel services	1,102	1,275
Office space	1,200	1,420
Machinery, tools	214	310
Communications and information technology equipment	180	188
Other	853	693
Total	**3,549**	**3,886**

Note 17. Expenses

	Note	*31 December 2022*	*31 December 2021 (restated)*
		(thousands of euros)	
Staff salaries		54,461	51,267
Staff entitlements and allowances		34,529	32,431
Temporary assistance		1,052	1,046
Subtotal, staff costs		90,042	84,744
International consultants		24,826	23,093
National experts		20,945	18,071
Administrative support and other consultancies		5,416	3,846
Subtotal, project personnel and consultancies		51,187	45,010
Subtotal, personnel costs and benefits	**17.1**	**141,229**	**129,754**
Regular travel		822	190
Project travel		9,785	1,757
Rental, utilities and maintenance		18,126	17,822
Information technology and communications automation		3,603	2,885
Supplies and consumables		2,608	2,325
Other operating costs		5,007	7,263
Subtotal, operating costs	**17.2**	**39,951**	**32,242**
Contractual services	**17.3**	**91,796**	**84,848**
Equipment expensed	**17.4**	**27,124**	**10,986**
Depreciation and amortization	**7,8**	**6,731**	**7,767**
Other expenses	**17.5**	**3,145**	**2,206**
TOTAL EXPENDITURE		**309,976**	**267,803**
Currency translation gains	**17.6**	31,704	31,084

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 €944 (2021: €950).

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 0.881 in 2021 to 0.939 in 2022. In 2022, unrealized and realized currency translation differences amounted to €19,743 and €11,962 (2021: €28,470 and €2,614), 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 2022 is presented below:

	Operating	*Investing*	*Total*
	(thousands of euros)		
Surplus of income (statement 5)	5,813	-	**5,813**
Basis differences	(15,548)	(52)	**(15,600)**
Presentation differences	16,525	-	**16,525**
Entity differences	26,615	(18,669)	**7,946**
Actual amount in the statement of cash flow (statement 4)	**33,405**	**(18,721)**	**14,684**

18.7 Budget amounts have been classified based on the nature of expenses in accordance with the programme and budgets approved for the biennium 2022–2023 by the General Conference at its nineteenth session (GC.19/Dec.16) for the regular and operational budgets of the Organization.

Explanation of material differences in the regular budget

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

Staff costs

18.9 Regular budget staff costs were utilized at 98.4 per cent, which exceeds the consumption pattern for the first year of the biennium. Due to the uncertainty in the payment of assessed contributions by Member States as well as soaring inflation rates, strengthening of the US Dollar, the vacancy factor in 2022 was maintained at a higher level than budgeted. Compared to the first year of the prior biennium the regular budget vacancy rate in 2022 increased to 21.8 per cent for professional and higher categories (15.5 per cent in 2020) and 5.9 per cent for general service (in 2020, 5.1 per cent).

Official travel

18.10 The budget for official travel has increased in 2022 by three times, compared to 2020. This was due to the COVID-19 pandemic restrictions being lifted in many parts of the world and business patterns coming back to regular or increased operations yet applying innovative ways acquired during COVID-19 times.

Operating costs

18.11 Savings in operating costs in the amount of €3.1 million were achieved, among others, due to savings in field operations, efficient use of public information services, translation, interpretation and document production in organizing sessions of policymaking organs, as well as efficiencies in the use of indirect costs.

Information and communications technology

18.12 The underutilization of €1.4 million in resources for information and communications technology is mainly attributable to a concerted effort at technological efficiency and seeking alternative arrangements with service providers.

Regular programme of technical cooperation and special resources for Africa

18.13 Resources for the regular programme of technical cooperation were administered under the special account created for that purpose to which the full appropriation had been transferred.

Note 19. Segment reporting

A: Statement of financial position by segment as at 31 December 2022

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Eliminations*	*Total UNIDO*
			(thousands of euros)		
ASSETS					
Current assets					
Cash and cash equivalents	21,483	390,090	77,303	-	**488,876**
Accounts receivable (non-exchange transactions)	13,906	135,144	(48)	-	**149,002**
Receivables from exchange	39	332	3,667	-	**4,038**
Inventories	-	-	802	-	**802**
Other current assets	6,563	24,551	519	(3,676)	**27,957**
Subtotal, current assets	**41,991**	**550,117**	**82,243**	**(3,676)**	**670,675**
Non-current assets					
Receivables	-	132,117	-	-	**132,117**
Property, plant and equipment	31,485	28,096	1,650	-	**61,231**
Intangible assets	265	91	211	-	**567**
Other non-current assets	808	5,261	-	-	**6,069**
Subtotal, non-current assets	**32,558**	**165,565**	**1,861**	**-**	**199,984**
TOTAL ASSETS	**74,549**	**715,682**	**84,104**	**(3,676)**	**870,659**

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Eliminations*	*Total UNIDO*
			(thousands of euros)		
LIABILITIES					
Current liabilities					
Accounts payable (exchange transactions)	419	1,175	13,890	(3,676)	**11,808**
Employee benefits	11,598	284	56	-	**11,938**
Transfers payable (non-exchange transactions)	10,703	16,236	9	-	**26,948**
Advance receipts	2,764	77,512	7,214	-	**87,490**
Other current liabilities	2,801	25,115	3,191	-	**31,107**
Subtotal, current liabilities	**28,285**	**120,322**	**24,360**	**(3,676)**	**169,291**
Non-current liabilities					
Employee benefits	116,816	4,515	38,764	-	**160,095**
Other non-current liabilities	27,963	325	-	-	**28,288**
Subtotal, non-current liabilities	**144,779**	**4,840**	**38,764**	**-**	**188,383**
TOTAL LIABILITIES	**173,064**	**125,162**	**63,124**	**(3,676)**	**357,674**
NET ASSETS					
Accumulated surpluses/(deficits): fund balances	(122,785)	540,606	19,280	-	**437,101**
Current period surplus/(deficit)	16,831	39,084	(1,348)	-	**54,567**
Reserves	7,439	10,830	3,048	-	**21,317**
TOTAL NET ASSETS	**(98,515)**	**590,520**	**20,980**	**-**	**512,985**
TOTAL LIABILITIES AND NET ASSETS	**74,549**	**715,682**	**84,104**	**(3,676)**	**870,659**

B: Statement of financial performance by segment for the year ended 31 December 2022

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Eliminations*	*Total UNIDO*
			(thousands of euros)		
INCOME/REVENUE					
Assessed contributions	70,928	-	-	-	**70,928**
Voluntary contributions	345	235,369	224	-	**235,938**
Investment revenue	111	341	193	-	**645**
Revenue producing activities	202	831	42,402	(20,688)	**22,747**
Other	4,642	4,160	2,281	(8,502)	**2,581**
TOTAL REVENUE	**76,228**	**240,701**	**45,100**	**(29,190)**	**332,839**
EXPENDITURE					
Personnel costs and benefits	50,147	61,240	29,842	-	**141,229**
Operational costs	13,854	13,875	16,013	(3,791)	**39,951**
Contractual services	1,547	90,208	41	-	**91,796**
Technical cooperation equipment expensed	115	26,960	49	-	**27,124**
Depreciation and amortization	2,613	3,612	506	-	**6,731**

	Regular budget activities	Technical cooperation	Other activities and special services	Eliminations	Total UNIDO
			(thousands of euros)		
Other expenses	6,652	21,905	(13)	(25,399)	**3,145**
TOTAL EXPENDITURE	**74,928**	**217,800**	**46,438**	**(29,190)**	**309,976**
Currency translation (losses)/gains	15,531	16,183	(10)	-	**31,704**
(DEFICIT)/SURPLUS FOR PERIOD	**16,831**	**39,084**	**(1,348)**	**-**	**54,567**

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 2022, activities created inter-segment balances in the amount of €4,200, €510, €20,689 and €3,792 (2021: €4,210, €490, €19,686 and €3,675) 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 €2,367 (2021: €2,056). The amount includes minimum lease payments. No sublease payments or contingent rent payments were made or received.

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

	Within 1 year	1 to 5 years	After 5 years	Total
		(thousands of euros)		
31 December 2022	432	7	-	439
31 December 2021	465	1	-	466

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

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

20.4 There are no agreements that contain purchase options.

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

	31 December 2022	31 December 2021
	(thousands of euros)	
Regular budget	2,884	4,122
Trust fund	45,708	50,464
Montreal Protocol on Substances that Deplete the Ozone Layer	40,809	35,667
Global Environment Facility	124,703	122,543
Industrial Development Fund	10,584	12,496
Inter-organization arrangements	632	761
Regular programme for technical cooperation	1,904	1,574
Special services and other	100	163
Total commitments	**227,324**	**227,790**

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 €2,165 (2021: €606).

20.7 Contingent liabilities on pending cases under Appendix D of the Staff Rules for possible retroactive payment amounted to €0 (2021: €0). Contingent liabilities for other claims amounted to €398 (2021: €428).

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

21.1 UNIDO made ex-gratia and special claims payments during the year of €30 (2021: €0).

21.2 The value of property, plant and equipment written off during the year due to loss/theft amounts to €18 (2021: €4).

21.3 During 2022 UNIDO incurred a cash loss of €0 (2021: €6).

Note 22. Related party and other executive management disclosure

Key management personnel

	No. of individuals	*Aggregate remuneration*	*Other compensations*	*Total remuneration 2022*	*Outstanding advances against entitlements 31 December 2022*
		(thousands of euros)			
Director General	1	464	133	597	-
Deputy to the Director General	1	201	-	201	-
Managing Directors	4	1,236	-	1,236	-

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

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

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

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

22.5 Key management personnel are ordinary members of UNJSPF.

22.6 Advances made against entitlements of key management personnel in accordance with staff rules and regulations amounted to 0 as at 31 December 2022 (2021: € 46).

Note 23. Opening balances adjustments

23.1 Opening balances were restated to include adjustments for more accurate classification of the current and non-current accounts receivable from voluntary contributions, based on the best estimate of expected cash inflows during next twelve months, rather than on its due date and elimination of Advances and deferral to Major Repair and Replacement fund.

Impact on the Statement of Financial Position	*31 December 2021*	*31 December 2020*
Current Assets		
Accounts receivable (non-exchange transactions)	(91,556)	(137,927)
Non-Current Assets		
Accounts receivable (non-exchange transactions)	91,556	137,927
Advances from non-exchange transactions	(863)	(951)
Current liabilities		
Advance receipts and deferred income	(863)	(951)

23.2 Balances of the project clearing accounts held for the United Nations Development Programme and other United Nations and host governments-related projects implemented by UNIDO originally presented under advance receipts and deferred income, were restated to present separate recognition of income and expenses, along with adjustment of expenses related to 2021 but recognized only in 2022.

	31 December 2021	*31 December 2020*
Current Liabilities		
Other current and financial liabilities	2,042	-
Expenses	2,042	-
Current Liabilities		
Advance receipts and deferred income	(5,554)	(841)
Accumulated surpluses/(deficits) and fund balances	1,008	4,320
Income	57	4,027
Expenses	1,680	1,059
Currency translation gains/(losses)	6,168	(6,446)

Note 24. Events after reporting date

24.1 The reporting date of UNIDO is 31 December 2022. 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.