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Report of the External Auditor for 2023

Report of the External Auditor on the accounts of the United Nations Industrial Development Organization for the financial year 1 January to 31 December 2023

Contents

	Page
LETTER OF TRANSMITTAL	4
ACKNOWLEDGEMENTS	5
INDEPENDENT AUDITOR'S REPORT	6
Executive summary	9
Audit results	15
A. Financial audit	19
A.1. Revenue and receivables	20
A.2. Expenses and liabilities	22
A.3. Property, plant and equipment	25
A.4. Employee benefits	27
A.5. Budget	28
A.6. Financial statement closure process	30
B. Performance audit	31
B.1. Corporate governance	31
B.2. Enterprise and project risk management	38
B.3. Project management	42
B.4. Resource optimization in technical cooperation	49
B.5. Human resources management	50
B.6. Corruption and fraud	58

V.24-07160 (E) 240524 270524

B.7. UN Resident Coordinator system 61

B.8. ESG reporting 63

C. Information technology 64

Annex

1. FINANCIAL STATEMENTS 70

2. VIC CATERING SERVICES INDEPENDENT AUDITOR'S REPORT AND ACCOMPANYING FINANCIAL STATEMENTS 110

3. MRRF INDEPENDENT AUDITOR'S REPORT AND ACCOMPANYING FINANCIAL STATEMENTS 116

4. GEF, LDCF, SCCF INDEPENDENT AUDITOR'S REPORTS AND ACCOMPANYING STATEMENTS OF ACCOUNTS 125

Acronyms and abbreviation

AC Assessed contributions
ASHI After-service health insurance
CHM Change Management
COR/AML Asset Management and Logistics 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/SFI Strategic Financial Initiatives
COVID-19 Corona Virus Disease 2019
CRR Consolidated Risk Register
DG Director General
EA External Auditor
EIO Office of Evaluation and Internal Oversight
ERM Enterprise Risk Management
ESG Environmental, Social and Governance
FCR Full cost recovery
FOs 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/MSR Member States and Funding Relations Division
GLO/RFO Division of Regional Bureaus and Field Offices
DLO/SOP Division of Special Operations
HLCM High-Level Committee on Management
HQ Headquarters
HR Human Resources
ICSC International Civil Service Commission
IDB Industrial development board
IET Directorate of SDG Innovation and Economic Transformation
IET/CTP Climate and Technology Partnerships Division
IET/IFI Division of Innovative Finance and International Financial Institutions
IET/QUA Division of Quality Impact and Accountability
IPSAS International Public Sector Accounting Standards
IRPF Integrated Results and Performance Framework
IS Information security
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
KMC Knowledge Management and Collaboration
KPI Key Performance Indicators
LoC Letter of commitment
Management UNIDO Management
MDs Managing Directors
MFA Multi-Factor Authentication
MTPF Medium-Term Programme Framework
M&E Monitoring and Evaluation
ODG Office of the Director General
ODG/SPU Office of Strategic Planning and UN Engagement
Organization United Nations Industrial Development Organization
PBC Programme and Budget Committee
PM Project manager
PPE Property, plant and equipment
PRM Project Risk Management
RB Regular budget
ROTC Resource optimization for technical cooperation
RRFP Results and Risks Focal Points
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
TC Technical Cooperation
TC Guidelines Guidelines on technical cooperation programmes and projects
TCS Directorate of Technical Cooperation and Sustainable Industrial Development
TCS/DSE Decarbonization and Sustainable Energy Division
ToR Terms of Reference
TOS Technical and Operational Services
ToT Transfer of title
UNSDCF United Nations Sustainable Development Cooperation Framework
UNDS United Nations Development System
UN United Nations
UNGM United Nations Global Marketplace
UNRC United Nations Resident Coordinator
VC Voluntary contributions
VIC Vienna International Centre
3E Economy, efficiency and effectiveness

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LETTER OF TRANSMITTAL

Dear Mr. Gerd Müller!

It is my honour to present the External Auditor’s report for the United Nations Industrial Development Organization (UNIDO) for the transmittal to the fifty-second session of the Industrial Development Board at the fortieth 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 2023.

In addition, we present Independent Auditor’s Reports on the Financial Statements of the Vienna International Centre (VIC) Catering Services, the Common Fund for Major Repairs and Replacements and the Statements of account of United Nations Industrial Development Organization’s Global Environmental Facility Trust Fund, the Least Developed Countries Fund for Climate Change and the Special Climate Change Fund as at 31 December 2023.

Acting Chair — Galina Izotova

Mr. Gerd Müller
Director General
United Nations Industrial Development Organization
Vienna, Austria

ACKNOWLEDGEMENTS

We wish to express our gratitude to the Programme and Budget Committee, the Industrial Development Board and the General Conference for their ongoing support and interest in our work as the External Auditor for financial years 2022–2023.

We wish to express our appreciation to the Director General, UNIDO Management and staff for their cooperation and assistance extended to the External Auditor. It is important to acknowledge the Management's commitment to best practices, ethics, and transparency in organizational decision-making and endorsement of the initiatives voiced by the External Auditor. We would like to recognize the Management's support for audit processes, commitment to provide necessary information and resources, and proactive efforts to address audit findings and recommendations.

We also express our genuine gratitude to the Management for their leadership, commitment, and collaboration in promoting accountability, risk management, and ethical conduct. We encourage continued collaboration between External Auditors and the Management, emphasizing the shared goal of enhancing governance, transparency, and organizational performance. A strong partnership built between the auditors and the leadership of the Organization is based on trust, mutual respect, open communication, and shared objectives. It contributes to the constant improvement allowing to benefit from the learning from the audit, address the identified weaknesses, and implement the best practices to enhance organizational effectiveness and achieve the objectives set by Member States.

Acting Chair, **Galina Izotova**
Accounts Chamber of the Russian Federation
External Auditor

Moscow, Russian Federation
19 April 2024

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 2023 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 31 December 2023. 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 UNIDO's report on 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, Russian Federation
19 April 2024

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]

In addition to external audit of UNIDO for the FY 2022–2023, the External Auditor is mandated to perform the audit of VIC Catering Services, the Common Fund for Major Repairs and Replacements (MRRF), and three funds, namely, United Nations Industrial Development Organization's Global Environmental Facility Trust Fund, the Least Developed Countries Fund for Climate Change and the Special Climate Change Fund.

VIC Catering Services and MRRF audit is performed in accordance with the Terms of Reference on the Audit of Financial Statement of the Catering fund and MRRF fund respectively.

The audit of the other three funds is performed in accordance with Section 12.4 of Financial procedures agreements (FPAs) between UNIDO and the International Bank for Reconstruction and Development (IBRD) as Trustee of GEF, the Section 11.4 of FPAs between UNIDO and IBRD as Trustee of LDCF, SCCF.

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 UNIDO's operations and key business processes within the 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, such structure provides the best overview of UNIDO's operations while focusing on risks and on 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 2023 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 comprises:

- **Financial audit** to ensure that the financial statements are free from material misstatements.
- **Performance audit** (including an assessment of the Organization's key processes) is aimed at assessing whether financial management and governance are economical, efficient, and effective (the 3E's concept) and can support the Organization in achieving its mission and strategic plans. In FY 2023, we continued analysing UNIDO major organizational restructuring, including Field reform, as well as performed a thorough analysis of UNIDO achievements on the implementation of External Auditor's recommendations in respect to the audit topics considered within the whole EA's mandate.
- **IT audit** 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 2023:

- 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 2023 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's responsibility is 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).

- **Responding 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 the External Auditor's responsibility to determine sample size (the number of transactions to inspect) in order to reduce the 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]

- **Assessing control environment:** 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. Essential steps comprise:

  – 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.

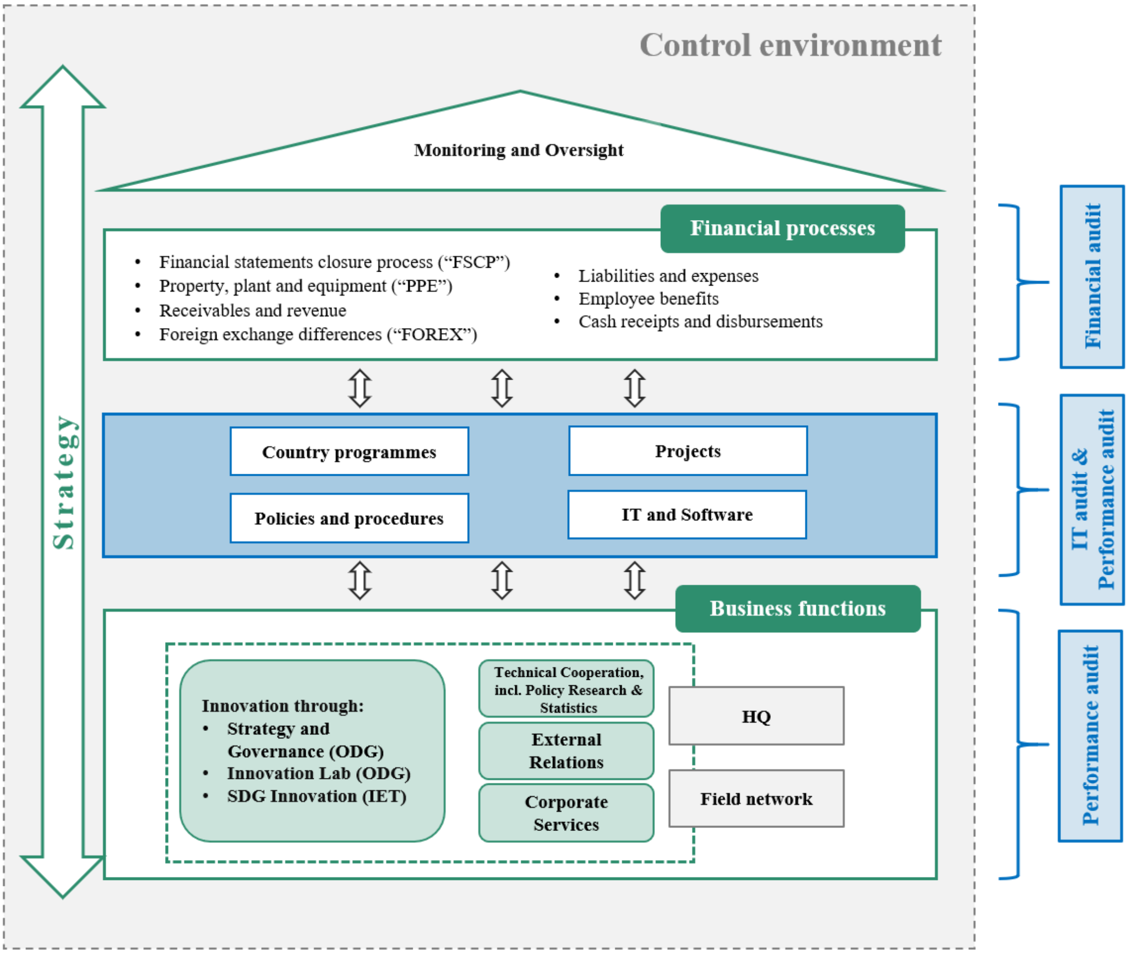
[2] ISA 315 "Identifying and Assessing the Risks of Material Misstatement".
[3] ISA 530.7 "Audit Sampling".
[4] ISA 500 "Audit Evidence".

Focus areas

As required by the ISA,[5] the External Auditor assesses risks 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. Figure 1 below provides 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 and audited them as part of the audit of the financial statements for the year ended 31 December 2023. We also selected business processes for the performance audit.

The External Auditor's report on financial year 2023 contains the auditor's main observations, findings, and recommendations. UNIDO's financial statements together with the auditor's report and audit opinion, were discussed with UNIDO 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

1. External Auditor's Recommendations Status

The implementation rate of the External Auditors' recommendations remains low with some areas requiring specific attention:

Figure 2. Implementation status of prior year recommendations

The External Auditor has built a trusting partnership with Internal Auditors. As a result, our recommendations are efficiently synchronized, therefore we are also stressing the importance of the IA recommendations.

The External Auditor strongly encourages UNIDO Management to analyse instances of missed deadlines, revealing their root causes, identify bottlenecks, and develop an appropriate management action plan for the implementation of the External and Internal Auditors' recommendations setting forth specific steps, timeframes, and responsible personnel.

Afterwards, UNIDO Management should track the progress in the implementation of the External and Internal Auditors' recommendations on a regular basis.

- *Project management.* Most recommendations can be resolved by revising TC guidelines,[6] the core guidelines regulating technical cooperation. TC guidelines were last updated in 2009 and require serious changes. Absence of a unified project methodology impedes with the achievement of DG's goals and undermines the efficiency of the core business. The ongoing discussion of the TC update has lasted for over three years with no final resolution reached yet and eight EA's recommendation depending on it.
- *HR management.* 88% recommendations are not fully implemented since FY 2022. In FY 2023, Leadership of HR function is appointed so we expect that this area will be addressed and included in appropriate management plan. Given that UNIDO employees are the key driving force behind the delivery of UNIDO projects and programmes, strengthening the HR management is of utmost importance as it will contribute to TC delivery increase. So, we would like draw UNIDO attention that HR leadership commitment is essential.

2. Corporate governance

As far as we understand, at the moment the primary objective of the UNIDO Leadership is achieving an annual increase in TC delivery of 25% that is prerequisite to the significant changes in UNIDO structure and strategic initiatives.

As a result, the Organization has faced numerous transformations in corporate governance. In FY 2022, UNIDO initiated a major restructuring followed by major transformation in UNIDO Secretariat structure, staff rotations, and revision of roles and responsibilities. The new Secretariat structure was afterwards fine-tuned and adjusted throughout FY 2023 leading to cases when new divisions were established and another ones were abolished. Staff responsibilities are to be polished accordingly. The upcoming new Secretariat structure is expected to be released in April 2024.

Apart from the restructuring, UNIDO has launched a significant number of initiatives aimed at improving TC efficiency, including but not limited to ROTC, FCR, Innovative Finance, Cost accounting, Full Cost Recovery and TC Scale-up, and TC optimization initiative. It was found that the initiatives were not always properly managed due to the lack of owner and overlapping outcomes or put on hold without strategic plans. The absence of a systematic approach to initiative management entails the risk that none of them will be completed or result in the desired increase in operational efficiency.

We encourage UNIDO Management to formalize the Secretariat structure and ensure systematic initiative management by defining an up-to-date list of current initiatives, setting specific goals, deadlines, and responsible personnel.

[6] "Administrative and Operational Guidelines for the Life Cycle of Development Cooperation Programmes and Projects".

3. IT general controls (ITGC) and cybersecurity

As part of the financial audit, we evaluated IT general controls to assess the reliability and integrity of the key applications used by UNIDO. ITGC are critical in supporting the internal control environment, and we evaluated them across four key domains: access management, computer operations, programme changes and their development. We also audited the cybersecurity controls that support the IT environment.

Due to the issues identified, the External Auditor cannot rely on UNIDO's IT general controls as the potential exposure to IT risks is high. As a result, the External Auditor performed the additional procedures and scrutinized the data extracted from the key IT systems, i.e. SAP ERP and SAP SRM. Nevertheless, we noted a substantial progress in FY 2022-2023 as eight out of 12 recommendations were implemented. It is important to sustain the already achieved results as well as act on further developments, most notably in the following areas:

Areas of progress	Further developments
Privileged access management	
Lower IT risks achieved due to a decreased number of accounts with privileged rights Privileged rights allow users to perform critical and sensitive actions in the systems. Access to privileged rights should normally be granted only to IT specialists, tightly controlled and limited as far as possible. During the audit, we noted a substantial (threefold) decrease in the number of privileged accounts. While a significant achievement, such accounts shall be either controlled or blocked. **Proper access management has been supported by introduction and update of key policies**	**Further review of privileged rights distribution and continuous monitoring of their usage** During FY 2023 we still noted instances of excessive access provision to employees who do not need them to perform their job duties. It is recommended to continuously review privileged access distribution, monitor their usage, and limit their provision wherever possible.
Segregation of duties	
UNIDO took proactive approach in access rights distribution Previously, access rights were distributed without a solid set of rules, often based on the individual judgement. In FY 2023, we noted the following progress: • A draft of role matrix has been developed defining the roles and rules for their distribution; a role concept for business users is under development. • Review of access rights is being conducted. • Clear segregation of duties has been achieved in the IT function, including change management. • Relevant internal policies and standard operating procedures (SOPs) are being updated.	**Clear segregation of duties (SoD) among business users has not been achieved** Profiles with allocated roles do not cover all the business users depending on their functions. This means that business roles within IT systems could still be distributed based on individual judgement, which might lead to provision of excessive access rights and conflicts of interest. To ensure a clear SoD UNIDO should: • Define business roles through a joint effort of IT specialists and business process owners; • Complete the review of access rights. Ensuring a clear SoD is especially important in the light of the Organization's structure changes when many staff members are being shifted across the Organization and granted with new access rights.

Cybersecurity	
Establishment of the information security function For the first time UNIDO created and made operational the information security function. The IT security function mitigates the risks for organization through: • Developed Information Security Policy; • Introduced position of the Information Security Officer; • Performed vulnerability assessment; • Enhanced cyber protection, including decommissioning of a vulnerable file sharing service and transition towards a secured cloud environment.	The following areas could be developed further: • **Continued testing of IT controls** to timely identify technical vulnerabilities; • **Opportunities for further cloud adoption** UNIDO achieved a higher level of security since replacing the local file sharing service with a secured cloud solution. The organization might explore which on-premises applications and services could also be migrated to cloud to support the continuity of business operations and enhance their security.

Assuming the 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 require further attention, and we recommend that Management continue the implementation of the developed remediation plan.

Audit results

Introduction

UNIDO is a specialized United Nations (UN) agency that aims to promote and accelerate inclusive and sustainable industrial development (ISID) in Member States. According to MTPF 2022–2025 ISID impact is going to be achieved through strengthening knowledge and institutions in three dimensions which are economic competitiveness, shared prosperity from industry and environmentally sustainable industry.

In FY 2023, UNIDO strategic priorities were tailored with a focus on the following thematic areas:

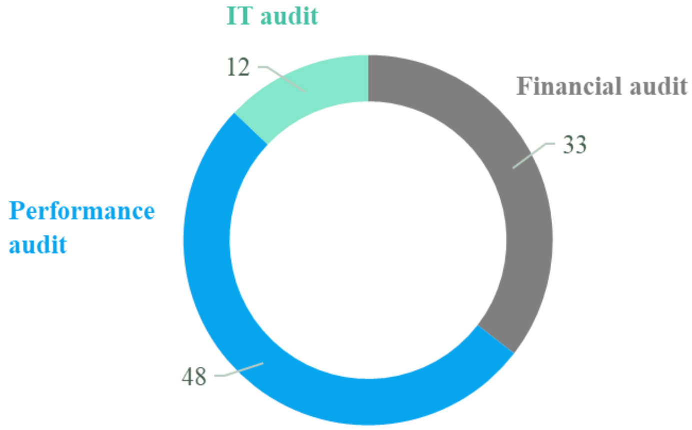
- Food security and agri-business;
- Sustainable access to energy and industrial decarbonization; and
- Sustainable supply chains and sustainability standards.

In FY 2023, UNIDO key objectives included TC delivery increase by 25%. For this purpose, UNIDO developed a set of initiatives aimed at optimization of administrative and operational processes, performed subsequent fine-tuning of the UNIDO Secretariat structure, launched field reform as well as initiated modifications to regulating documents on TC activities. These processes were specifically considered as part of the performance audit.

In the financial audit observations, the External auditor focused on key considerations that require strengthening of internal controls. The design of controls is essential to ensure their reliability. Recommendations on strengthening IT general controls are provided in Section C “Information technology (IT)”. While we observed significant progress in IT general controls in FY 2023, they still have improvement potential. Thus, we expanded the scope of our work and tested additional documents to mitigate the audit risk. We support UNIDO Management in their continuing efforts to remediate IT deficiencies and follow the designed management plans.

With FY 2023 being the last year of our audit mandate, key audit procedures included a thorough analysis of the implementation of PY recommendations to support a smooth hand over process to the new External Auditor and ensure audit continuity. We performed the overview of financial, performance and IT audit matters covered in FY 2020–2023, analysed the current status of each recommendation outstanding at the beginning of FY 2023 and highlighted areas for further analysis by our successor. The number of newly issued recommendations in FY 2023 is limited given the significant number of open PY recommendations.

Figure 3. Summary of audit topics considered and number of recommendations provided in FY 2020–2023



Type of audit	Topic	Number of recommendations	Period of audit 2020	2021	2022	2023
Financial audit	Cash Receipts, Cash Disbursements	1	V	V	V	V
	Revenue and Receivables	7	V	V	V	V
	Expenses and Payables & Full Cost Recovery	5	V	V	V	V
	Property, Plant and Equipment	9	V	V	V	V
	Employee Benefits	0	V	V	V	V
	Foreign Exchange Difference	0	V	V	V	V
	Financial Statement Closure Process	6	V	V	V	V
	Budget	5	V	V	V	V
	Total	33				
Performance audit	Corporate Governance, including organizational structure and restructuring	9	V	V	V	V
	Project Management	8	V	V	-	V
	Procurement	3	V	-	-	V
	ESG reporting	6	-	V	-	-
	Resource Optimization for Technical Cooperation	3	-	V	-	-
	UN Resident Coordinator system (UNRC)	1	-	V	-	-
	Human Resources Management	8	-	V	-	-
	Enterprise and Project Risk Management	6	-	-	V	-
	Corruption and Fraud	4	-	-	V	-
	Total	48				
IT	ITGC	7	V	V	V	V
	Cybersecurity	5	V	-	-	-
Total		93				

In the report below, our observations are grouped by audit types. General observations on financial reporting are presented in **Section A** together with financial audit observations. Performance audit observations are presented in **Section B** while **Section C** covers IT audit.

Summary of new External Auditors recommendations for FY 2023

The External Auditor Recommendations	Level of risk
A. Financial audit	
A.1.1. Approach to calculating the amortized cost of accounts receivable should be revised	Medium
A.1.2. Strengthening of internal controls over the timely revenue recognition is required	Medium
B. Performance audit	
Corporate governance	
B.1.1. Corporate governance system should be improved	High
B.1.2. Restructuring process is still undergoing and appears to be inefficient	Medium
B.1.3. Substance of result areas of UNIDO activities should be clarified	Medium
Project management	
B.3.1. Practical application of Grants Manual should be elaborated in order to strengthen internal controls and achieve full compliance	Medium
B.3.2. Revision of the project portfolio to increase TC delivery and meet leadership targets is required	Medium

Priority of the recommendations:

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

Status of implementation of the External Auditor's recommendations from previous years in FY 2023

Based on the thorough analysis, the External Auditor noted that in FY 2023 15 (26 per cent) out of 57 recommendations were implemented or closed, 33 (58 per cent) are on-going and 9 (16 per cent) have not yet been implemented. All recommendations are classified by "critical", "high", "medium" or "low" priority in order to focus on the most meaningful recommendations (Table 1). Information about recommendation status by audit type is provided in Table 2.

Table 1. Status and priority of the prior year recommendations

Priority	Implemented	Ongoing	Not-implemented
High	4	11	2
Medium	7	18	6
Low	4	4	1
Total	**15**	**33**	**9**

Table 2. Status of recommendations by audit type

Type of audit	Financial	Performance	IT
Implemented	1	10	4
Ongoing	5	24	4
Not-implemented	8	1	0
Total	**14**	**35**	**8**

Implementation status of each recommendation is described in respective sections of the report. Breakdown of open (ongoing and not implemented) recommendation by years and responsible for their implementation is provided in Table 3 and 4. We would like to pay attention that three open recommendations are pending the Members States decision.

To enhance operational efficiency and effectiveness, we encourage UNIDO to strategize and maintain its continuing commitment to addressing the External Auditor's recommendations. As a standing of good practice, the Leadership of other UN Organizations performs annual management plans with achievable targets to implement Internal and External Auditors recommendations keeping not implemented observations at a minimum level. At the same time, UNIDO keeps open recommendations since 2018.

Table 3. Breakdown of open EA's recommendations by years

Year	Number	Per cent
2022	18	44
2021	11	30
2020	10	21
2019	2	4
2018	1	2
Total	**42**	**100**

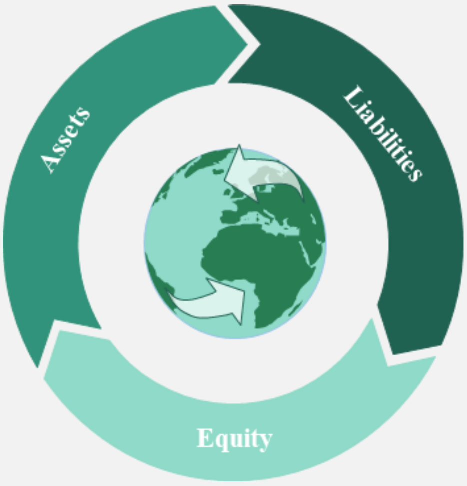
Table 4. Open recommendations by responsible

Responsible	Number	Reference to the section
Pending decision of Member States	3	A.1, A.4, A.5
COR/DIG	12	A.2, A.3, A.6, B.3, C
COR/AML	1	A.3
COR/FIN	3	A.2, A.5, A.6
COR/HRS	7	B.1, B.5
GLO/RFO	2	B.1
GLO/PMO	1	B.8
COR/EAU	2	B.6
EIO	2	B.3, B.6
COR/OMD	2	B.2
IET/QUA	4	B.2, B.3
ODG/SPU	1	B.7
COR/LED	2	B.5
Total	**42**	**100**

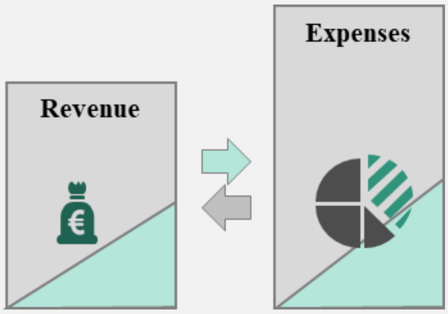
A. Financial audit

Financial Statements overview

Overview of financial position as at 31.12.2023Figure 5



Overview of financial performance for the year ended 31.12.2023
Figure 6



Cash and cash equivalents represent **59 per cent** of total assets. 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 **30 per cent** of the total value of assets. Receivables from the Member States for assessed contributions represent five per cent of the receivables' balance, while their major part comes from voluntary contributions.

Property, plant and equipment (PPE). **62 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 2023 due to the growth of the Organization's activities after the COVID-19 pandemic shutdowns.

Employee benefits comprise primarily post-employment benefits, including the after-service health insurance, and constitute **46 per cent** of the total liabilities. A 4 per cent increase in the employee benefits balance is explained by the slight reduction of the discount rate.

Accumulated surplus decreased by 6 per cent (€29 million) due to the currency translation losses.

Assessed contributions represent **22 per cent** of the total revenue. The collection rate for the biennium 2022–2023 is 93.2 per cent, which is higher than 89.9 per cent in 2020–2021.

Voluntary contributions (VC) represent **70 per cent** of the total revenue. VC increase in FY 2023 amounted to three per cent.

Expenses incurred stood at approx. €336 million with small operational surplus of €0,1 million. Nearly **31 per cent** of expenses pertain to contractual services.

Currency exchange gains/losses. In FY 2023 currency exchange loss amounted to €22 million, the major part of which constitutes translation gains/losses while the realized part is insignificant.

Adjustments of financial statements

During the audit, we identified the following instances that required adjustment of the current and previous years' financial statements line items (for the list of adjustments, please see Note 23 to the FS):

- **Implementation of IPSAS 41 "Financial instruments"**. IPSAS 41 establishes new requirements for measuring financial instruments through application of forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing. The application of this standard directly affected the amount of loss allowance on assessed contributions receivables that was adjusted by €2 million as at 31 December 2022.
- **Long-term receivables**. The non-current portion of GEF receivables was not amortized for several years primarily due to the low effective interest rate (close to zero) which did not provide a significant discount effect. Starting from FY 2022, effective interest rate has increased significantly, therefore, long-term GEF receivables shall be recalculated. In this regard, UNIDO adjusted the opening balance of non-current assets by €8 million and €2 million as at 31 December 2022 and 31 December 2023 accordingly.

A.1. Revenue and Receivables

UNIDO's revenue comprises:

- **Assessed contributions from Member States** which are considered from the collectability standpoint. Analysis of collected payments is an essential part of the assessed contributions audit. In FY 2023, we also performed additional audit procedures in respect to calculation of loss allowance on assessed contributions receivables in accordance with new IPSAS 41 requirements.
- **Voluntary contributions from donors** represent a material part of UNIDO's financing (70 per cent of total revenue in FY 2023). Key risks of this type of revenue are associated with occurrence and accuracy, therefore we inspected supporting documents for timely revenue recognition as well as evaluated whether voluntary contributions were accurately calculated (deferred to further accounting periods) and measured.
- **Revenue-producing activities** mostly include funds received from VBOs to execute building management services (BMS) assigned to UNIDO. We do not associate significant or high risks with this type of revenue, therefore only sample audit test was conducted to obtain reasonable level of assurance without any additional audit procedures.
- **Investment revenue and miscellaneous income** involve various types of revenue, where most of the amount pertains to UNIDO's interest earned and accrued on short-term deposits held with financial institutions as well as income due to favourable HQ office rental conditions. These amounts were recalculated to evaluate their accuracy and reasonableness.

The list of new and prior year audit observations is provided below.

Year	Recommendation	Status	Level of risk
2020	A.1.3.1. Amend FRR provisions or increase WFC to allow UNIDO use late payments of assessed contributions	Not implemented	High
2023 NEW	A.1.1. Approach to calculating the amortized cost of accounts receivable should be revised	Resolved	Medium
2023 NEW	A.1.2. Strengthening of internal controls over the timely revenue recognition is required	Resolved	Medium

PY 2020	A.1.3.1. High	Amend FRR provisions or increase WFC to allow UNIDO use late payments of assessed contributions
Full description of the recommendation		*"We recommend that Management either amend FR provisions 4.2 (b), (c) to allow UNIDO use late payments of assessed contributions, or increase Working Capital Fund (WCF), so UNIDO could release budget in the amount of AC approved at General Conference.* *The refunds paid to Member States mislead the users of the financial statements regarding the amount of contributions that are actually available. Under the current approach, nearly 90 per cent of AC is collected and spent, while the outstanding 10 per cent is refunded if not renounced by Member States. These refunds encourage late payments and negatively influence the ability of UNIDO to use its regular budget effectively, because UNIDO is limited by the amount of funds that have been collected."*
Current progress		We note that no final decision was made on this issue at the PBC.39 and IDB.51 sessions therefore, the recommendation remains open. Taking into account the global economic situation and difficulties with timely collection of assessed contributions, we emphasize the importance of this recommendation for UNIDO to ensure stable financial situation of the Organization. Implementation of the recommendation fully depends on the MS decision on this matter.
Status		Not implemented. **Member States decision is pending**.

A. Financial audit | A.1. Revenue | Other topics | B. Performance audit | C. IT audit

FY 2023	A.1.1. Medium	The approach to calculating the amortized cost of accounts receivable should be revised
Current approach		According to UNIDO IPSAS Policy Manual all receivables are accounted at amortized cost and, therefore, shall be discounted if there is a long-term part. In its calculation, UNIDO determines the discount rate equal to the weighted deposit rates. Since deposit rates have been around zero over the past few years and have not given a significant discount effect, long-term receivables have not been discounted in FS.
IPSAS requirements		IPSAS 41.9 stipulates that *'the effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability'*. Thus, the effective interest rate should be determined in relation to the counterparty and to the contract for which cash flow or outflow is expected. IFRS 13.B17 contains similar requirements that credit risk of counterparty should be taken into account while calculating the effective interest rate. When the counterparty is a specific country, then the effective interest rate could be the country's bond rate (yield curve) or the interest rate of the central bank in that country.
Conclusion		Given that GEF receivables are primarily considered as risk-free obligations, the Eurobond rate is proposed to be considered as an effective interest rate since it is usually applied to obligations with a low credit risk.
Recommendation Status: **Resolved**		The External Auditor suggests revising the approach of calculating GEF long-term receivables applying Eurobond rate for discounting purposes. As this rate has increased significantly since FY 2022, GEF receivables shall be recalculated at the opening balance FY 2023 as well.
Management response		Agreed, implemented.

FY 2023	A.1.2. Medium	Strengthening of internal controls over the timely revenue recognition is required
Description		We identified instances where GEF documents were issued by the donor in FY 2022, but revenue was recognized only in FY2023 evidencing weakness and improper design of internal controls over the timely VC revenue recognition.
IPSAS requirements		In accordance with IPSAS requirements, income and expenses shall be recorded in the period to which they relate. The lack of sufficient internal controls triggers cut-off risks of untimely revenue recognition and, as a result, leads to misstatements in the Statement of financial performance.
Recommendation Status: **Resolved**		UNIDO should strengthen internal controls over the timely revenue recognition to ensure the completeness of VC revenue. We note that starting from September 2023 UNIDO has introduced an additional semi-annual control procedure, aimed at reconciliation of LoCs requested from GEF coordinators and revenue posted. This procedure should be extended to other donors as well (if applicable).
Management response		Agreed, implemented.

A.2. Expenses and liabilities

A major audit risk of expenditures accounting relates to contractual costs that are primarily incurred within the project implementation. This type of expenditures has to be accompanied with supporting documents. Once the Organization receives a supporting document for the expense incurred, such expense shall be recorded in the accounting. In reality, there may be a time gap between the day the service is rendered and the day the supporting document is received. Based on UNIDO's days payables outstanding (DPO) 77 days we can conclude that on average UNIDO pays for service during two–three months. This means that at the reporting date, extensive procedures need to be performed to identify payables/expenses that shall be charged in the period to which they relate.

Throughout the External Auditor's mandate, we regularly identified cases of late expenditures recognition, in particular, we revealed approximately €2.2 million expenditures untimely recognized in FY 2023. The list of prior year audit observations and recommendations aimed at strengthening internal controls in this area is provided below.

Year	Recommendation	Status	Level of risk
2020	A.1.5.1. Accruals are performed manually and as a result may be omitted	Not implemented	Medium
2022	A.2.1. An assessment of contractual services through the TC delivery on the IPSAS basis is encouraged	Ongoing	High
2022	A.2.2. The full cost recovery implementation strategy shall be revised	Ongoing	Medium

PY 2020	A.1.5.1. Medium	Accruals are performed manually and as a result may be omitted
Full description of the recommendation		*"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."*
Current progress		For automation purposes, Financial Services (COR/FIN) created an IT ticket which is currently in the backlog and not taken into consideration by Information Technology and Digitalization Services (COR/DIG). We were informed that COR/FIN initiated joint discussions with COR/DIG on compiling the total list of pending IT tickets, detailed requirements, their prioritization and further assignment of responsible staff and deadlines. We believe this activity will speed up the implementation of EA's recommendation.
Management response		The recommendation will be implemented by COR/DIG in Q3 2024.
Status		**Not implemented**

PY 2022	A.2.1. High	An assessment of contractual services through the TC delivery on the IPSAS basis is encouraged
Full description of the recommendation		*"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."*
Current progress		The transition to reporting TC delivery on IPSAS basis is considered as one of the optimization levers with substantial potential for efficiency gains and TC delivery acceleration. Since the TC Optimization initiative launched at the beginning of FY 2024, no further actions have been undertaken on this matter as well as no changes in SAP configuration have been made.
Related risks		Apart from the cut-off risk of untimely expense recognition highlighted last year, delays with transition to IPSAS-based approach also triggers managerial risk of manipulation of date to achieve the TC delivery ambitious targets. In FY 2023, we observed several cases of incorrectly indicated delivery date, which is a key parameter used for the calculation of TC delivery. In particular, we identified purchase orders created and/or approved in FY 2024 with the delivery date in FY 2023 (over €2.5 million) as well as purchase orders with the delivery date shifted from FY 2024 to FY 2023 (approximately €3 million) without a proper justification. Thus, we have certain concerns in regarding the accuracy of the TC delivery amount to be disclosed in the UNIDO Annual Report 2023. Based on the above, the External Auditor strongly suggest UNIDO management speed up the transition to IPSAS-based TC delivery reporting as it would ensure more accurate data both in the Financial Statements and in the Annual Report.
Management response		The recommendation will be implemented COR/FIN and COR/DIG by end of 2025 and to be reviewed at the end of 2024.
Status		**Ongoing**

PY 2022	A.2.2. Medium	The full cost recovery implementation strategy shall be revised
Full description of the recommendation		*"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."*

A. Financial audit | A.1 Revenue | A.2 Expenses | Other topics | B. Performance audit | C. IT audit

Current progress	**a.** Concept to increase full cost recovery and a proposal for an applied strategy for enhanced TC implementation and pipeline issued by UNIDO in 2023 contains a similar recommendation on enforcement of a new project budget planning reporting approach that would ensure improved understanding on the real portfolio and project budget and lead to accurate and complete cost estimations. The proposed action plan inter alia presupposes the revision of the budgeting and controlling processes to meet realistic actual (realized and forecasted) budgeting figures. However, implementation of this recommendation is currently put on hold until updated TC Guidelines are issued, therefore the EA's recommendation is considered as not implemented. **b.** According to UNIDO comments, the cost accounting system is in SAP production ready for testing and validation with COR/FIN, and expected to be finalized by Q3 2024. In addition, UNIDO made a step forward in FY 2023 and updated the existing time recording system. Starting from the Q2 2024, time sheets will be mandatory for filling for all the staff members that will allow to calculate actual costs incurred within a TC project delivery. Based on the above, we would suggest the new External Auditor perform the assessment of the implemented cost accounting system as well as review the accuracy and completeness of timesheets to make sure in the correctness of calculation of actual project costs. **c.** The performance of the gap analysis will be possible only after para (a) and (b) are implemented.
Management response	The recommendation will be implemented by COR/DIG in part of para (a), (c) and COR/FIN in part of para (b) by the end of Q3 2024.
Status	**Ongoing**

A.3. Property, plant and equipment

A major part of property, plant and equipment (PPE) is represented by the VIC building (€28.1 million out of €46.9 million). The remaining of PPE comprise machinery and equipment for technical cooperation (€13.9 million). Since UNIDO implements projects worldwide, project assets are located in various countries that brings increased risks of their existence and safety. UNIDO should have a robust internal control system to manage these risks. Over our four-year audit mandate, we identified several weaknesses in internal controls over the asset existence, asset omissions and asset controls that resulted in misstatements in the financial statements. The main area of concern includes project assets that are located all over the globe as risks of their improper use or lack of controls are much higher compared to assets located in Vienna. To strengthen the control environment, UNIDO should automate accounting procedures performed manually, create additional automatic controls in SAP and increase the responsibility of project managers for the accuracy of data on project assets, since its quality determines the accuracy and reliability of the financial statements. The list of prior year audit recommendations regarding PPE is provided below.

Year	Recommendation	Status	Level of risk
2020	A.1.4.1. PPE additions recorded may be incomplete due to late confirmation or lack of the link to service that needs to be capitalized	**Not implemented**	Medium
2022	A.1.1. Strengthening of controls over property, plant and equipment recognition is required	**Not implemented**	High
2022	A.1.2. Strengthening of controls over the timely derecognition of project assets is required	**Ongoing**	High

PY 2020	**A.1.4.1.** Medium	**PPE additions recorded may be incomplete due to late confirmation or lack of the link to service that needs to be capitalized**
Full description of the recommendation		*"We recommend that UNIDO develop automatic linkages between services and purchased assets to identify services to be capitalized automatically. In addition, monitoring of the cut-off and implementation of controls over PPE additions is encouraged."*
Current progress		For automation purposes, Financial Services (COR/FIN) created an IT ticket which is currently in the backlog. The proposed automation will accelerate asset capitalization and minimize manual transactions resulting in higher accuracy and lower risk of error.
Related risks		Before setting automatic linages, Asset Management and Logistics Services (COR/AML) has to perform manual monitoring of services such as installation, transportation and other direct costs to be capitalized in PPE which were purchased via separate purchase orders. Based on the monitoring, COR/AML manually adjusts identified material cases. As a result, UNIDO may both omit capitalization of direct expenses from the one side, and initiate depreciation before PPE is ready for operation from another due to manual operation of control.
Management response		The recommendation will be implemented by COR/DIG with support of COR/FIN and COR/AML in Q4 2024.
Status		**Not implemented**

PY 2022	A.1.1. High	Strengthening of controls over property, plant and equipment recognition is required
Full description of the recommendation		*"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.)."*
Current progress		The recommendation has a similar status, i.e. COR/FIN created an IT ticket which is currently in the backlog without assigned deadline and responsible.
Related risks		The lack of proper IT controls and consequently impossibility to confirm assets recognition in SAP by project managers until such assets are delivered, leads to the risk of overstatement of assets' net book value and corresponding depreciation in the financial statements. Since most of the project assets are costly, there is a high probability of material misstatement.
Management response		The recommendation will be implemented by COR/DIG in Q4 2024.
Status		**Not implemented**

PY 2022	A.1.2. High	Strengthening of controls over the timely derecognition of project assets is required
Full description of the recommendation		*"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."*
Current progress		The External Auditor acknowledges joint effort between COR/AML and COR/FIN to revise the existing Property Management Manual to include additional internal controls in this area and provide a set of trainings on asset management to TC project teams. In FY 2023, we identified instances (up to 20% of assets disposed during 6 months 2023) when transfer of titles (TOT) over the assets had already been issued, but the assets were kept on the balance sheet. In order to prevent similar cases in the future, COR/AML introduced an internal control procedure aimed at reconciliation of TOTs issued and assets disposed in SAP to ensure the completeness of "TC equipment expensed" line item in the financial statements. As a result, all assets with issued ToT were timely derecognized. In this regard, we would suggest that the new External Auditor pay attention to the implementation of this recommendation and assess whether the internal controls were strengthened.
Management response		The recommendation will be implemented by COR/AML in Q2 2024.
Status		**Ongoing**

A.4. Employee benefits

Over the past four years we have not issued any new recommendations regarding employee benefits. At the same time, one recommendation from 2019 remains uncovered and is pending Member States resolution.

PY 2019 Medium	**Develop automatic linkages between services and purchased assets**
Full description of the recommendation	*"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."*
Current progress	There were no major developments on ASHI issue in FY 2023. Thus, post-employment benefits remained unfunded and UNIDO continued to manage the plan on the pay-as-you-go basis. We were informed that the matter would be discussed with Member States at PBC and IDB sessions in the biennium FY2024–2025. Considering the growing of retirees every year, this issue is becoming more relevant than ever.
Management response	Deliberations with the MS will continue with an aim to convince the MS to approve resources exceeding the amounts needed in the pay-as-you-go-scheme. Those excess funds could be used to mitigate the risks associated with the current scheme.
Status	**Not implemented**. **Member States decision is pending**.

A. Financial audit | A.4 EB | A.5 Budget | Other topics | B. Performance audit | C. IT audit

A.5. Budget

Starting from the 2022–2023 biennium, UNIDO prepares programme and budget according to results-based budgeting principles and outlines the following results:

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

At the same time, clarity of the above results, its compliance with the FRR and accuracy of the budget inputs raises concerns described in the recommendations below.

Year	Recommendation	Status	Level of risk
2020	B.4.2. Lack of flexibility in transfers of expenditures	Not implemented	Low
2022	A.3.1. Budget does not contain sufficient details of the planned activities	Implemented	Medium
2022	A.3.2. Procedures and instructions on budget inputs, including inflation rates, shall be revised	Partially implemented	High

PY 2020	B.4.2. Low	Lack of flexibility in transfers of expenditures
Full description of the recommendation		*"We recommend that Regulation 4.3 FRR be revised, and that the threshold be established (e.g. up to ten 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."*
Current progress		The External Auditor notes that this topic was discussed at IDB.51 session, yet Member States could not find a mutual solution. Taking into account the global economic situation and difficulties with timely collection of assessed contributions, the External Auditor emphasizes the importance of this recommendation for UNIDO as it is critical for ensuring financial stability of the Organization.
Status		**Not implemented. Member States decision is pending**.

PY 2022	A.3.1. Medium	Budget does not contain sufficient details of the planned activities
Full description of the recommendation		*"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."*
Current progress		We were informed that this matter was discussed with the Member States which in principle do not mind budgeting by results instead of programmes, thus the recommendation is considered as implemented.

	At the same time, it was highlighted within the above discussion that the current results are quite ambiguous and do not reflect actual results of the Organization's work and they should be more specific (refer to the new recommendation B.1.3.).
Status	**Implemented**

PY 2022	A.3.2. High	Procedures and instructions on budget inputs, including inflation rates, shall be revised
Full description of the recommendation		*"We recommend that UNIDO's Management:* *a. Analyze 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."*
Current progress		**a, c.** The inflation rate included in the Programme and FY 2024–2025 budgets for staff costs was in line with the expected inflation rate provided by ICSC, thus recommendation (a) is considered as implemented. However, due to substantial macroeconomic changes, the actual inflation rate may differ significantly from the expected one, and therefore we suggest UNIDO to assess and up-date its budget preparation process, including instructions on budget inputs. In this respect, the Member States decision is pending. **b.** Issuance of administrative instruction is pending due to multiple priorities and is expected by the end of Q3 2024 by COR/FIN.
Management response		COR/FIN will revise the planning and budgeting process, procedures, and instructions in the context of preparation of the 2025–2026 biennium Budget.
Status		**Partially implemented; para (b) and (c) are open.**

A.6. Financial statement closure process

There are three EA's recommendations on the preparation of financial statements which are still open:

- Two recommendations are aimed at strengthening IT controls over manual journal entries and accounting adjustments in SAP to prevent unauthorized or fraudulent transactions. No changes were introduced in SAP on this matter.
- One recommendation is methodological in nature and relates to the revision of the UNIDO Policy Manual that includes references to outdated IPSAS standards and/or does not contain provisions of newly issued standards.

Year	Recommendation	Status	Level of risk
2020	A 1.1.3. Lack of control over manual journal entries may lead to unauthorized or fraudulent transactions	Not implemented	Medium
2020	A 1.1.4. Manual and automatic adjustments shall be controlled to prevent and detect unauthorized or fraudulent transactions.	Not implemented	Medium
2019	IPSAS Compliance is encouraged	Ongoing	Low

A brief description of the above recommendations is provided below. For the full description please refer to the External Auditor's report for FY 2020 (IDB.49/3–PBC.37/3).

Controls over manual journal entries	Controls over accounting adjustments	IPSAS Compliance
"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."*	*"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."*	*"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."*
Q4 2024; COR/DIG and FIN	Q4 2024; COR/DIG and FIN	Q4 2024; COR/FIN

B. Performance audit

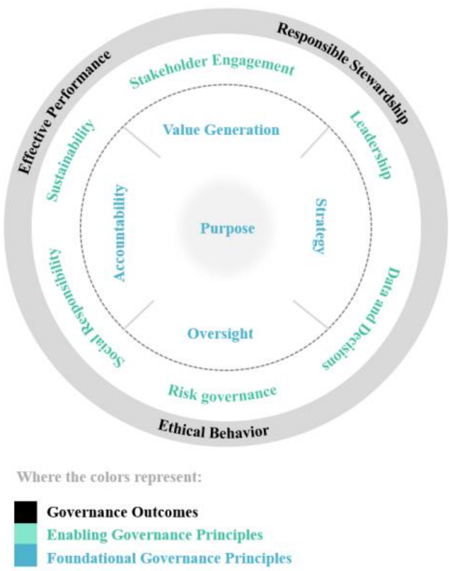
B.1. Corporate governance

In accordance with ISO 37000:2021[7] the governance of organizations is a system performed in the context of enabling principles in order to achieve the organizational purpose, governance outcomes and the generation of value for the organization and its stakeholders. It identifies who has power to make decisions, defines lines of accountability and ensures that organization has appropriate decision-making processes and controls in place so that the interests of all stakeholders (Member States, employees, suppliers, and others) are balanced.

Figure 4 illustrates the framework for governance of organizations that consists of the principles and outcomes. These components already exist in full or in part within UNIDO. However, some of them need to be adapted and improved so that the governance of the organization is efficient, effective and consistent.

Over the four-year audit mandate, the corporate governance system of UNIDO has transformed significantly through the change of Director General, restructurization of UNIDO Secretariat and the Field Network Reform, introduction of new governing bodies and launch of new initiatives. These developments as well as strong goals of mobilizing funds and increasing TC delivery led to an impressive growth of the TC portfolio resulting in a positive trend in financial indicators.

Figure 4. Governance framework overview



Along with the reinforcement of the TC potential, the above activities highlighted some weaknesses in relation to using a structured and systematic approach to corporate governance. Frequently changing initiatives and a lack of a stable balanced organizational structure creates the risks of quick wins in the short term and gradual stagnation in the long term.

A list of the new and prior year audit recommendations on corporate governance, including aspects of the organizational structure, field office assessment and, restructuring process is provided below.

Year	Recommendation	Status	Level of risk
2020	B.1.1. TC activities and the UNDS reform are not reflected in UNIDO's organizational structure	Partially implemented	High
2021	B.3.1. Communication between Field Offices and HQ requires improvement	Partially implemented	Low
2022	B.1.1. The organizational restructuring process is not sufficiently regulated	Partially implemented	Medium
2022	B.1.2. The staff rotation process during the restructuring requires improvement	Closed	Low
2022	B.1.3. Monitoring and evaluation process should be improved	Not implemented	Medium
2023 NEW	B.1.1. Corporate governance system should be improved	Open	High
2023 NEW	B.1.2. Restructuring process is still undergoing and appears to be inefficient	Open	Medium
2023 NEW	B.1.3. Substance of result areas of UNIDO activities should be clarified	Open	Medium

[7] ISO 37000:2021 "Governance of Organizations".

A. Financial audit | B. Performance audit (B.1 CG | Other topics) | C. IT audit

PY 2020	B.1.1. High	**TC activities and the UNDS reform are not reflected in UNIDO's organizational structure**
Full description of the recommendation		*"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 the SMART model in order to ensure monitoring of the functions indicated in ToR."*
Current progress		The recommendation on the analysis of FOs location is considered implemented. This matter was discussed on the second phase of the restructuring process, with a decision to keep FOs in their current locations, which changed the place of some of the offices in the hierarchy of the FO network. Partially, this was done due to financial constraints, as it would be difficult to open new FOs without proper financing. However, the opening of new FOs in other locations was considered as well, provided they would be funded by Member States similarly to ITPO offices. The recommendation on the assessment of technical skills and revision of KPIs is currently open and planned to be covered in 2024 as part of restructuring the field network. The External Auditor encourages Management to perform such an assessment since FOs are expected to be more actively involved in project activities and the extent of their involvement fully depends on their skills and capacities. We note that, without waiting for the results of the above assessment, HQ encourages PMs delivering projects in the fields to share their knowledge and experience with the local employees and act as officers in charge for some FOs. In addition, several trainings have been launched for FOs to strengthen their required basic skills.
Management response		The recommendation will be implemented by COR/HRS with support of GLO/RFO by the end of 2024.
Status		Partially implemented; **assessment of technical skills and revision of KPIs is open.**

PY 2021	B.3.1. Low	**Communication between Field Offices and HQ requires improvement**
Full description of the recommendation		*"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."*

Current progress	Para **(a), (c)** and **(d)** may be considered implemented. HQ actively engages FOs to discuss the development strategy for the field network and the related regulations, necessary support such as trainings, resources, networking opportunities, etc. Field offices take an active part in-business development striving to attract local partners and suppliers and build relations with other UN agencies on the ground within UNCTs. Overall, HQ demonstrates strong commitment to fostering bonds with field offices and involve them in strategy development and decision-making processes. As for para **(b)**, we understand that this recommendation is in progress and will be resolved in FY 2024 within the field reform.
Management response	The recommendation (b) has been implemented by GLO/RFO. The template for field office annual reports has been amended to include such information from 2025, i.e. in the annual reports covering the year 2024. In the meantime, field offices have been invited to supplement their 2023 annual reports and provide information on their role in each TC project in their respective country(-ies) of coverage.
EA response	EA acknowledges UNIDO efforts to update reporting templates and supplement them with a list of projects with FOs involvement. Since such templates were not provided to the External Auditor at the final audit stage, we keep this recommendation open and suggest the new External Auditor perform analysis of the updated template and its practical application, after which the recommendation may be closed.
Status	**Partially implemented; para (b) remains open.**

PY 2022	**B.1.1.** Medium	**The organizational restructuring process is not sufficiently regulated**
Full description of the recommendation		*"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 the 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."*
Current progress		**a.** The new priorities have been set out in programming documents and communicated internally and externally. Alignment of the new priorities to the new organizational structure was assigned to COR/HRS. When an updated organizational structure is finalized, COR/HRS will be responsible for the change management exercises, including consistent internal communication to maximize engagement among employees. We recommend Management pay special attention to the implementation of this recommendation since a lack of restructuring goals by UNIDO staff may negatively affect their performance. As UNIDO is going through constant changes in its Secretariat structure for a second consecutive year, we observed declining motivation in some employees often due to lack of understanding of the ultimate goal and final destination in the restructuring process. Clearly defining the Organization's strategic priorities, mapping them to the target structure and communicating this connection to the employees will help overcome the existing resistance to change and raise employee commitment.

	b/c. We suggest closing the recommendations under para **(b)** and **(c)** considering the closure the Change Management Office. However, since some aspects of change management have been re-assigned to HRS, we encourage HRS to implement them where applicable. A well-developed CHM Framework and a communication plan may help perform change management activities in a more efficient, coherent and less resource-consuming way.
Management response	The recommendation will be implemented during the course of 2024 (and reaching into 2025) based on corporate governance analyses undertaken by COR/HRS as part of a continuous approach to change management.
Status	**Partially implemented; para (a) remains open.**

PY 2022	**B.1.2.** Low	**The staff rotation process during the restructuring requires improvement**
Full description of the recommendation		*"We recommend UNIDO 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."*
Current progress		We suggest closing this recommendation given its strong connection to the overall recommendations on the HR management function, which were highlighted in the External Auditor's report 2021 and are currently ongoing: • B.6.1. The current composition of the workforce should be polished to ensure the implementation of the HR strategy; • B.6.2. Staff competencies should be specified for each position; • B.6.6. The knowledge management system requires improvement.
Status		**Closed**

PY 2022	**B.1.3.** Medium	**Monitoring and evaluation (M&E) process should be improved**
Full description of the recommendation		*"We recommend UNIDO Management the following:* *a. Align the M&E Framework with the CHM Framework;* *b. Complement the 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."*
Current progress		Based on the analysis and communication with UNIDO, we understand that the M&E Framework developed in 2022 to track the Secretariat restructuring and change management progress was not implemented in 2023. Since the Change Management Office was closed in June 2023, all change management activities were handed over to COR/HRS and COR/LED, and the M&E has become a cross-cutting issue handled by COR/HRS. Currently this division has not performed the overall monitoring over the on-going fine-tuning and changes in the Secretariat structure. Baseline data has not been collected, and there is no tracking process to continuously collect data for further analysis of the restructuring efficiency and effectiveness. In the

	absence of reliable consistent data gathered in accordance with the metrics and targets stipulated in the framework, UNIDO may face difficulties in evaluating the restructuring results and its effect on project activities by the Organization. We believe that our prior recommendations on monitoring need to be resolved in order to provide Member States with reliable information on the restructuring outcomes.
Management response	The recommendation will be implemented by COR/HRS and COR/LED in Q3 2024.
Status	**Not implemented**

FY 2023	**B.1.1.** High	**Corporate governance system should be improved**
Continuous changes of UNIDO Secretariat		In FY 2022, UNIDO initiated a major **restructuring of its Secretariat**, including staff rotations, revision of roles and responsibilities. The new Secretariat structure was subsequently fine-tuned and adjusted throughout FY 2023. New divisions were created and others abolished, resulting in further changes to staff responsibilities. Staff rotations continued, sometimes without discussions or even a warning to the rotated personnel and their former/new supervisors. At the final audit stage, the External Auditor was informed that the fine-tuning process was still ongoing and there was no published DG Bulleting with the revised UNIDO Secretariat Structure 2023.
Launched initiatives		Over the last couple of years UNIDO has launched **a significant number of initiatives aimed at increasing TC efficiency**, including but not limited ROTC, FCR, Innovative Finance, Cost Accounting, Full Cost Recovery and TC Scale-up, TC optimization initiative. We found that such initiatives are not properly managed. In particular, some of them do not have an accountable owner, or they may be abandoned halfway, while some initiatives may overlap and go in parallel leading to inefficient consumption of valuable resources, especially personnel time and effort. Lack of a systematic approach to managing initiatives entails the risk that none of them will be completed with an increase in operational efficiency. UNIDO management elaborated that in October 2023 the Leadership Board decided to designate COR/SFI to coordinate all efforts relating to FCR and TC optimization. COR/SFI as spearheaded numerous reform initiatives, yet their progress remains constrained by resource limitations.
Implementation of auditors' recommendations		Furthermore, some **recommendations developed by the External and Internal Auditors** in the past two years have not been assigned to a responsible person/division (owner). Therefore, there is no progress on those recommendations. Some of the recommendations are supported with a management action plan, others have not been elaborated with specific steps to implement the EA's recommendations.
Recommendation Status: **Open**		We encourage UNIDO management to: a. stabilize the Secretariat structure to help personnel get used to their new responsibilities, form and strengthen dedicated teams and create long-term plans in line with the Organization's strategy; b. manage initiatives in a systematic way by defining an up-to-date list of current initiatives and setting specific goals, deadlines and responsible staff.
Management response		Agree

FY 2023	**B.1.2.** Medium	**Restructuring process is still undergoing and appears to be inefficient**
Description		Two years into the restructuring process, and the UNIDO Secretariat structure is still changing constantly. While some teams managed to quickly adjust to the new way of

	business and make significant progress in their activities, others do not have clear goals or resources, and they suffer from the duplication of functions and continuing rotation of staff.
Success stories	The Division of Innovative Finance and International Financial Institutions unit (IET/IFI) is an example of successful restructuring. Among its other achievements, this unit contributed to the UNIDO's submittal of an application to become a Supervising Entity of the Global Agriculture and Food Security Program. UNIDO became a founding member of a new Alliance for Special Agro-Industrial Processing Zones and a technical partner under the Lusophone Compact.
Areas for improvement	At the same time, we draw attention to some areas for improvement regarding results of the UNIDO restructuring: • **One function is divided between several teams**. We noticed that GEF projects are handled by two divisions from different TC directorates, TCS/DSE and IET/CTP, while the GEF focal point is located in the third division, GLO/MSR. This creates difficulties in communication and pursue of new projects as different directorates focus on different goals. We are aware of one instance where GEF gave a project to another UN agency due to the lack of synergy UNIDO teams working with GEF. • **Some teams do not have clear functionality or direction.** For example, the functionality of the newly created Compliance unit is not clear. Specifically, it is unclear compliance with which laws, regulations and frameworks it is expected to ensure, and what risks it is meant to protect against. As such, creation of a separate Compliance unit is not in line with the existing practice of the UN, where a compliance function is allocated to each unit within its respective area of responsibility (e.g., the procurement unit complies with the procurement legislation, HR complies with the labour legislation, etc.). A single compliance focal point may also become a bottleneck due to lack of resources and specific expertise. • **Some teams experience lack of resources.** We observed that the Division of Special Operations (DLO/SOP) is extensively involved in interaction with and attraction of former and non-Member States. However, it does not have sufficient personnel and budget for its current tasks. and may struggle when dealing with them. It also faces difficulties with the functionality and direction since its developed strategy and plan have not been approved. The functions related to working with at-risk projects are not actually performed in view of no methodology for identifying such projects. • **Some functions of the abolished units are not assigned to new teams.** We noticed a lack of team in GLO that would engage and develop relations with existing Member States. Considering DLO/SOP success in attracting new member States it may be reasonable to entrust them with the communication with existing Member States in order to prevent potential withdrawals of Member States and loss of funding.
Recommendation Status: **Open**	We encourage UNIDO management to perform a deep analysis of the current Secretariat structure and develop an ultimate structure, aligned with the UNIDO mission, strategy, available resources, personnel skills and capacities.
Management response	Agreed. The recommendations will be implemented during the course of 2024 (and reaching into 2025) based on wider institutional analyses led by COR/HRS and COR/FIN as part of a continuous approach to change management. Relevant institutional entities will be involved during implementation.

A. Financial audit | B. Performance audit (B.1 CG | Other topics) | C. IT audit

FY 2023	B.1.3. Medium	Substance of result areas of UNIDO activities should be clarified
Description		We are aware of some Member States noting in FY 2023 that the UNIDO Annual Report 2022 did not provide sufficient information about the substance of UNIDO operations and their actual impact on SDG achievement. In addition, five results areas that form the basis of the Programme and Budgets as well as the Annual report, appear to be high-level and ambiguous so Member States do not always understand which activities are performed and what impact is achieved. Moreover, accountability, including explaining the purpose of the Organization’s activities and the outcomes of its engagement with the stakeholders, is a key principle of corporate governance and needs attention. Clear results and specific details of the Organization’s activities could help Member States understand “what they are paying for” and ultimately provide more funding to UNIDO.
Recommendation Status: **Open**		We encourage UNIDO management to upgrade the approach to the five results together with Member States: a. review five results areas and, together with Member States and reword them, to achieve transparency and best reflect UNIDO activities; b. based on the revision of five results areas, adjust the Annual Report structure accordingly, supplement it with specific targets and results of the work performed, allowing one to understand the activities of UNIDO and how they contribute to achieving SDGs.
Management response		Agreed

B.2. Enterprise and Project Risk Management

Risk management is a fundamental governance principle, which allows to navigate uncertainties while reaching an organization's objectives. A mature risk management system is of crucial importance to UNIDO as an international organization with over 2 000 employees and TC projects across the globe.

Risk management in UNIDO is divided into two major systems:

- Enterprise risk management (ERM) is a strategic approach to managing risk holistically across the organization and its ecosystem; and
- Project risk management (PRM) is the process of identifying, analysing and responding to any risk that arises over the life cycle of a project to help the project remain on track and meet its goal.

In FY 2022, 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. The results of this assessment indicated that UNIDO in many aspects is at the beginning of the journey, so we developed a detailed roadmap to further strengthen ERM and PRM. The recommendations reflected in the FY 2022 report represent a summary of the said roadmap.

In FY 2023, UNIDO exerted great effort to improve its risk management. For example, it conducted an extensive work to develop the ERM policy and PRM approach, by updating the Consolidated Risk Register, developing a risk management tool, etc. Given that most of our recommendations require certain amount of time and resources to implement, we believe the current progress is exemplary.

Year	Recommendation	Status	Level of risk
2022	B.3.1. The potential of "tone at the top" as the basis of ERM is not fully realized	Implemented	High
2022	B.3.2. The ERM Policy contains outdated information or requirements not used in practice	Ongoing	Medium
2022	B.3.3. Structure of the Consolidated Risk Register requires improvement	Ongoing	Medium
2022	B.3.4. No specific IT tools for ERM are in place	Implemented	Low
2022	B.3.5. Risk management matters might not be considered in decision-making on projects	Ongoing	Medium
2022	B.3.6. Lack of a unified and systematic approach to PRM	Ongoing	Medium

PY 2022	B.3.1. High	The potential of "tone at the top" as the basis of ERM is not fully realized
Full description of the recommendation		*"We suggest that UNIDO' 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."*
Current progress		In FY 2023, we admit significant improvements in the "tone at the top". In particular: • UNIDO appointed the Risk Management Officer; • ERM issues are discussed in detail on the IDB; • A new ERM policy is under revision. Apart from that, the functions of the Operations Committee now include a regular analysis of the ERM and PRM issues to: (i) ensure timely implementation of the UNIDO Risk Management Framework and regularly report on progress to the Leadership Board;

	(ii) recommend risk-mitigation actions in relation to the projects-at-risk portfolio and regularly monitor their implementation. Considering improvements in regulating the "tone at the top", we believe this recommendation is implemented. Yet, we suggest that the successor EA should analyse further implementation and consistent application of respective practices.
Status	**Implemented**

PY 2022	B.3.2. Medium	The ERM Policy contains outdated information or requirements not used in practice
Full description of the recommendation		*"We recommend that UNIDO 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)."*
Current progress		**a.** UNIDO is revising of the existing Enterprise Risk Management policy to enhance governance and oversight, further strengthen the Organization's risk management architecture and provide a unified approach fully aligned with UNIDO's new organizational structure and internal governance structure. The expectation is that the updated ERM policy will be finalized after the EIO ERM assurance review in order to take into account all recommendations. **b.** The updated ERM Policy will include a procedure for determining risk appetite We acknowledge the great effort by the Risk Management team. UNIDO has conducted a thorough benchmarking of risk appetite statements across UN organizations and developed a draft Risk Appetite Statement to serve as a foundational guideline. However, the UNIDO ERM Focal Point has opted to defer the draft introduction until the completion of bilateral engagements with MDs. These engagements are aimed at validating enterprise risk taxonomy and levels that are planned to be performed in accordance with COSO's guidance, as well as the guidance issued by the HLCM Cross-Functional Task Force on Risk Management. This recommendation may be considered implemented when the new ERM Policy is issued and a risk appetite statement is developed under this policy.
Management response		The recommendation will be implemented by COR/OMD and guided by the UNIDO ERM Focal Point in Q3 2024.
Status		**Ongoing**

PY 2022	B.3.3. Medium	Structure of the Consolidated Risk Register (CRR) requires improvement
Full description of the recommendation		*"We recommend that UNIDO 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."*

A. Financial audit | B. Performance audit (B.1 CG | B.2 ERM | Other topics) | C. IT audit

Current progress		We understand that the updated ERM policy will include new provisions on the risk assessment survey, in particular, new timeframes for its conduct and other regulation. UNIDO is currently enhancing its enterprise risk register by integrating insights from the 2023 risk assessment, drawn from the narratives and objectives of the 2024–2025 Programme and Budgets, oversight recommendation and strategic imperatives across UNIDO Directorates into an enterprise-level risk taxonomy. Following the bilateral engagements and validation of the risk taxonomy, the UNIDO ERM Focal Point and supporting functions will develop a plan of a joint enterprise risk assessment 2024 with increased involvement from senior management.
Management response		The recommendation will be implemented by COR/OMD and guided by the UNIDO ERM Focal Point in Q3 2024.
Status		Ongoing

PY 2022	**B.3.4.** Low	**No specific IT tools for ERM are in place**
Full description of the recommendation		*"We suggest that UNIDO Management develop a plan to implement IT tools for risk assessment, consolidation, verification, and management, including responsible persons and deadlines."*
Current progress		In FY 2023, UNIDO made a significant step forward and started working on a demo version of a MS Excel-based risk management tool, which will then be integrated into one of its IT platforms. The demo contains information on all of the UNIDO's existing risks and allows to categorize them from different perspectives, potentially helping to develop mitigation plans. We understand the demo will soon be demonstrated to DG, followed by its implementation and further development. Therefore, we believe that this recommendation is implemented.
Status		**Implemented**

PY 2022	**B.3.5.** Medium	**Risk management matters might not be considered in decision-making on projects**
Full description of the recommendation		*"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."*
Current progress		The new approach to Project Risk Management and a separate chapter about projects-at-risk identification is expected to be included in the new TC Guidelines, which are currently under review and have not been issued. The recommendation may be closed after the TC Guidelines are reviewed and issued. We encourage the next External Auditor to analyse the practical implementation of the new approach.
Management response		The recommendation will be implemented by IET/QUA by the end of 2024.
Status		Ongoing

A. Financial audit | B. Performance audit: B.1 CG | B.2 ERM | Other topics | C. IT audit

PY 2022	B.3.6. Medium	**Lack of a unified and systematic approach to Project Risk Management (PRM)**
Full description of the recommendation		*"We recommend that UNIDO 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."*
Current progress		A new approach to reviewing project documentation at the project approval stage, including the consideration of project risk management matters, was piloted in Q4 2023 and fully mainstreamed in Q1 2024 based on a revisited checklist and upgraded guidance on Intranet pages for project managers. Revised training sessions on PRM will be rolled out from Q1 2024 for newly inducted staff.
Management response		The recommendation will continue to be implemented by IET/QUA in 2024 as piloted in Q3 2023 and its results will be assessed in Q1 2025.
Status		**Ongoing**

A. Financial audit | B. Performance audit (B.2 ERM | B.3 PM | Other topics) | C. IT audit

B.3. Project Management

UNIDO's primary objective is the promotion and acceleration of industrial development in developing countries and countries with economies in transition and the promotion of international industrial cooperation. This objective is mostly achieved through technical cooperation which encompasses the delivery of projects and programmes in different industries and areas. Thus, the quality of project management regulations and practices directly influences UNIDO's ability to fulfil its strategic goals.

In FY 2020, we performed an assessment of the entire project management function in UNIDO in accordance with ISO 21500 "Guidance on Project Management". In FY 2021, we continued the analysis and performed an assessment of six selected projects to see how the UNIDO's project management practices are applied in specific cases and whether their application is consistent from project to project.

In 2023, UNIDO Strategic Financial Initiatives jointly with an external consultant developed a fully-fledged concept with recommendations on full cost recovery (FCR) and a proposal for an applied strategy for implementing enhanced Technical Cooperation (TC). The concept highlighted areas for improvement and provided recommendations similar to outstanding EA's recommendations. As of January 2024, only four out of 11 recommendations are on track in terms of implementation, whereas the remaining seven recommendations are either delayed or put on hold.

While the Organization demonstrates commitment to improving its project management practices and takes certain steps to identify the best course of action, the practical application of the improvement plans remains somewhat slow or inefficient. The much-anticipated new TC Guidelines have been in work for over three years, leaving the Organization with outdated regulations in the area of project management which is the main area of Organization's business activities.

In view of the ambitious goal of increasing TC delivery by 25% annually, UNIDO management should focus on implementing recommendations made by the External Auditors and consultants.

Year	Recommendation	Status	Level of risk
2018	Para 177. Improvement of corporate results monitoring and reporting framework is required	Partially implemented	High
2020	B.2.1. Project management methodology is outdated	Ongoing	Medium
2020	B.2.2.1. One-size-fits-all project management approach	Ongoing	Medium
2020	B.2.2.2. Project management quality: areas for improvement	Ongoing	High
2021	B.2.1. Project budgets are insufficiently justified	Closed	Medium
2021	B.2.3. Criteria for mid-term and terminal evaluation are not clearly defined	Partially implemented	Medium
2023 NEW	B.3.1. Develop practical application guidelines to the Grants Manual to strengthen internal controls and ensure full compliance	Open	Medium
2023 NEW	B.3.2. Revise the project portfolio to increase TC delivery and meet leadership targets	Open	Medium

A. Financial audit | **B. Performance audit** (B.2 ERM | B.3 PM | Other topics) | C. IT audit

PY 2018	para 177 High	**Improvement of corporate results monitoring and reporting framework is required**
Full description of the recommendation		*“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.”*
Current progress		**a.** We acknowledge UNIDO’s great effort in ensuring that IRPF indicators are set for each project in the Organization’s portfolio and consider this recommendation implemented. **b.** IET/QUA conducted an extensive exercise to confirm that IRPF indicators are assigned to all projects within the UNIDO portfolio and that targets and actual results for the reporting period are put into the system for each assigned IRPF indicator. This work is performed on a selective basis described in the internal document “Review of IRPF data quality – project targets for Year 2023”. It is advisable to confirm the accuracy of the actual values on all projects and all IRPF indicators. However, considering the lack of resources, we believe the recommendation may be considered implemented. **c.** This recommendation is ongoing and may be closed if the new TC Guidelines contain requirements and guidelines on assigning IRPF indicators to projects.
Management response		The outstanding para (c) will be implemented by IET/QUA by Q4 2024, in collaboration with other relevant entities.
Status		**Partially implemented; para (c) is ongoing.**

PY 2020	B.2.1. Medium	**Project management methodology is outdated**
Full description of the recommendation		*“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 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.”*

A. Financial audit | B. Performance audit (B.2 ERM, B.3 PM, Other topics) | C. IT audit

Current progress	A draft of the updated TC Guidelines is being finalized. We acknowledge that the reworking of this document is an extensive exercise and requires some time to embrace the new organizational structure, current UNIDO strategic priorities, areas of optimization as well as respective recommendations of the External and Internal Auditors. The recommendation may be closed after the updated TC Guidelines are issued. Meanwhile, we encourage the next External Auditor to analyse the practical implementation of the updated project management approach in subsequent years.
Management response	A new portfolio methodology will be piloted in Q2 2024 led by COR/DIG with a taskforce from IET/QUA, COR/OMD, ODG/OSC and implemented on a large scale in Q4 2024. This will eventually be assigned to the new Directorate for Strategic Programming.
Status	Ongoing

PY 2020	**B.2.2.1.** Medium	**One-size-fits-all project management approach**
Full description of the recommendation		*"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:* - *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, 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."*
Current progress		The External Auditor is informed that a cross-organizational coordination team led by COR/DIG will identify the best ways to assess the current portfolio and develop criteria and metrics to cluster new projects according to project tiers (financials, risk, impact, political importance, strategic priorities, innovation). A new system to score projects/programmes according to the tiers will be established and reflected in the new TC Guidelines. The updated project formulation, appraisal and approval (FAA) process is also integrated into the draft new TC Guidelines. The recommendation may be closed after the TC Guidelines are issued and the successor External Auditor makes sure that this document provides for several options of the FAA process depending on the project/programme type.
Management response		A new portfolio classification methodology will be piloted in Q2 2024 led by COR/DIG with a taskforce from IET/QUA, COR/OMD, ODG/OSC and implemented on a large scale in Q4 2024. This will eventually be assigned to the new Directorate for Strategic Programming.
Status		Ongoing

A. Financial audit | **B. Performance audit** (B.2 ERM | B.3 PM | Other topics) | C. IT audit

PY 2020	B.2.2.2. High	**Project management quality: areas for improvement**
Full description of the recommendation		*"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.* *Internal monitoring standards and tools:* • *Establish internal reporting mechanisms with defined formats, responsibilities, clear and standard performance metrics focused on quantitative and RAG indicators.* • *Develop portfolio progress dashboards and provide detailed descriptions of the monitoring steps required.* *Description of the implementation stage:* • *Divide the implementation stage into several phases, including inception, core execution and closing.* • *Define a set of key deliverables for each phase and develop standard templates and appraisal, approval and storage procedures for these deliverables.* *Quality control procedures during the implementation stage* • Establish *a clear matrix of deliverables that includes a set of project documents based on the complexity and type of project, highlighting "audit" documents and defining the phase when the document shall be prepared.* • *Perform regular quality reviews of status reports and deliverables and implementation of a stage-gate process."*
Current progress		The upcoming new TC Guidelines will include an updated formulation, appraisal and approval process as well as a detailed section on monitoring and reporting, including quality aspects. The latter will be fully aligned with the Monitoring and Reporting Policy (DGB/2021/14) and contain a programme- and project-at-risk system, which is aligned to the quality criteria stipulated in the Quality Assurance Framework (DGB/2019/11). The revision of this recommendation is possible only after issuance of the new TC Guidelines.
Management response		The recommendation will be implemented by IET/QUA by Q4 2024.
Status		**Ongoing**

PY 2021	B.2.1. Medium	**Project budgets are insufficiently justified**
Full description of the recommendation		*"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)."*
Current progress		We emphasize that this recommendation is designed to improve the justification of the project budget. Current templates provide only for a high level, rough estimation of the budget rather than a detailed calculation. It is best practice that budgets include the rationale and assumptions as the basis for calculations. We were provided with Management comments: "A new TC Forecasting has been implemented in Q1 2024 by COR/DIG with TCS/CIS as the rephasing of the existing TC project budgets will require considerable

	negotiations with funding partners. Notwithstanding, efforts will be made to support project managers to introduce more accurate budgeting in 2024 onwards. A project budget template is already available on the COR/FIN intranet page including all potential costs". Based on the above we suggest closing this recommendation. Nevertheless, we suggest the successor External Auditor should perform follow up procedures and ensure that project budgets are accurately prepared and properly justified.
Status	Closed

PY 2021	**B.2.3.** Medium	**Criteria for mid-term and terminal evaluation are not clearly defined**
Full description of the recommendation		*"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."*
Current progress		**a.** We have reviewed the updated Evaluation Manual 2023 and noted that para 2.3. contains a visual diagram indicating the periods of different types of evaluation including mid-term, terminal and ex-post evaluations. Therefore, we consider this recommendation as implemented. **b.** We understand that provisions specifying deadlines for independent project evaluation by project managers may be included in the new TC Guidelines. The recommendation may be closed after the TC Guidelines are issued and reviewed. **c.** We noticed a significant progress in the implementation of this recommendation, even though it is still being implemented. In particular, a concept note and a roadmap have been developed by EIO to promote the creation of the post-assessment fund. Oversight Advisory Committee supported the EIO proposal and made a proper recommendation to Member States at the informal working group on PBC-related issues in June 2023. Furthermore, IDB.51/Dec. requests the Secretariat to ensure transparent, sustainable and predictable funding for independent evaluations and internal oversight functions, and the Operations Committee endorses the recommendation to create an Evaluation Trust Fund. Considering a great interest from various parties, we believe that this recommendation will be fulfilled within the established deadline.
Management response		The recommendation (b) should be formally addressed to TCS/MD (currently COR/DIG is coordinating the new TC guidelines task). It will be implemented in 2024. The recommendation (c) will be implemented by EIO by Q2 2025.
Status		Partially implemented; **para (b) and (c) are ongoing**

A. Financial audit | B. Performance audit (B.2 ERM | B.3 PM | Other topics) | C. IT audit

FY 2023	B.3.1. Medium	Practical application of Grants Manual should be elaborated in order to strengthen internal controls and achieve full compliance
Description		Development and application of a well-structured management system for implementing partners is extremely important for UNIDO due to growing demands from the funding partners.
Current difficulties		As part of the EU pillar assessment, UNIDO issued the Grants Manual in 2021 which contains requirements for the award, management and implementation of grants within technical cooperation programmes and projects. We analysed its practical application and identified the following areas for improvement: **1. Obstacles in the practical application of the Grants Manual requirements** Some provisions of the Grants Manual are quite vague and misleading, which makes it difficult to comply with. For example, the Grants Manuals provides for a unified procurement process for implementing partners and other grant beneficiaries, which are both referred to as «grant beneficiaries» therein. However, in practice, some provisions may be relevant only for other grant beneficiaries. UNIDO acknowledged this issue and noted that Guidance Notes are being developed to cover certain aspects requiring a quick fix as a revision of the Grants Manual may take over a year. **2. Transactions with implementing partners are not tracked in SAP** Implementing partners and transactions with such partners do not have any identification in SAP which complicates monitoring and reporting processes. The inability to collect accurate and complete data leaves management without a basis for strategic assessment and course correction. **3. Lack of dedicated resources to fulfil monitoring requirements** According to the Grants Manual, UNIDO shall verify technical and financial reports submitted by implementing partners. The verification of financial reports requires allocation of human resources to test supporting documents which is an extensive and time-consuming exercise. In the absence of resources, there is a risk that the monitoring requirements will not be fulfilled. Given the upcoming EU pillar assessment, non-compliance with the Grants Manual in its turn could have a negative impact on further EU funding.
Recommendation Status: **Open**		We recommend UNIDO Management: a. continue updating and clarifying respective regulation by revising the Grants Manual requirements; b. explore options for identification of transactions with implementing partners in SAP; c. finalize hiring a financial control expert with the role of monitoring and testing the transactions of implementing partners.
Management response		Agree. Procurement Division is in a process of updating the Grants Manual; UNIDO's Accounting Manual (#53) provides an interim solution prior to finalization of the Manual. Subject of resources available, further measures may be implemented, along with managements objectives and/or EU verification feedback

A. Financial audit | B. Performance audit: B.2 ERM | B.3 PM | Other topics | C. IT audit

FY 2023	B.3.2. Medium	Revision of the project portfolio to increase TC delivery and meet leadership targets is required
Description		As UNIDO is actively working on the DG's goal to increase TC delivery by 25% annually, we encourage the Organization to revise its approach to project portfolio management and improve on identified issues.
Principles of project selection		In particular, UNIDO may need to update its approach to project selection. In the past few years, UNIDO had a lot of small projects that usually bring little funding but require a lot of effort and time for implementation. According to internal estimate, 70% of the time is spent on projects that account for ten per cent of revenue. It is definitely shall be taken into account that UNIDO, being an UN agency and having its duties and obligations before Member States, cannot reject implementing certain projects. At the same time, we encourage UNIDO to reconsider its approach to taking on small projects to better align with the current strategy.
Projects prolongation		Another issue relates to frequent project prolongations that affect project managers workload and worsens project delivery by take up to 40% of project managers time. The reasons may vary, including: • Poor planning, leading to the need for prolongation; • Lack of motivation for PMs to close projects on time no impact on bonuses, promotions, etc.; • Some projects are performed not by UNIDO, but by local implementing entities, which may not have enough resources and time to implement all planned activities within the deadline. Often such implementing entities are government bodies and UNIDO does not have any real leverage to speed up project activities; • There is an inconsistency in the timing between the donor-beneficiary agreements and the actual time required for UNIDO to finalize the project.
Recommendation Status: **Open**		We recommend that UNIDO Management: a. Reassess its approach to initiating and taking on small projects; b. Analyse the existing projects portfolio understand the reasons for project prolongation and develop measures to eliminate them. Where the elimination is not possible, we suggest optimizing the prolongation procedures so that project managers could put more effort into actual project implementation.
Management response		Agreed

B.4. Resource optimization in technical cooperation

In 2020, UNIDO introduced Resource Optimization in Technical Cooperation (ROTC) – a new approach to delivering Technical Cooperation. ROTC was aimed to boost the UNIDO capacity for increasing TC delivery and to adjust the TC business model, which was "project manager" driven, with limited controls and no segregation of duties.

Since ROTC potentially marked a significant change in UNIDO business operations, we performed a thorough analysis of this initiative as part of the FY 2021 audit and developed the recommendations listed below. However, the whole ROTC implementation and further institutionalization process has been slowing down since FY 2022, with a lack of centralized management, monitoring and trouble-shooting. As a result, the External Auditor's recommendations were put on hold.

In FY 2023, DG initiated an advisory review of ROTC by EIO revealing the overall inconsistency of implementation and lack of institutional approach. The review report with recommendations related to ROTC was submitted to DG in November 2023, which resulted in the ROTC initiative merging into the TC Optimization exercise.

Based on the above, we believe the below recommendations may be closed.

Year	Recommendation	Status	Level of risk
2021	B.4.1. Centralization of medium value procurement	Closed	High
2021	B.4.2. Implementation of ROTC pilot requires ongoing analysis and monitoring	Closed	Medium
2021	B.4.3. Segregation of PM duties during the project cycle is not formalized	Closed	Low

A full description of the above recommendations is provided below.

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."

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"

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 channels and cooperation principles.

c. Procedures for conflict resolution should any misunderstanding arise between PMs from different groups of the same project."

A. Financial audit | **B. Performance audit** (B.4 ROTC | B.5 HR | Other topics) | C. IT audit

B.5. Human resources management

UNIDO employees are the key driving force behind the delivery of its projects and programmes and are the Organization's most valuable resource. Human resource management represents an important function in UNIDO that has a direct and indirect long-term effect on its performance. With this understanding, we assessed the efficiency of HR processes in FY 2021, including a benchmark analysis based on key metrics, performance indicators and best practices, and developed a number of practical recommendations.

Since then, the UNIDO HR department has been experiencing certain challenges, including restructuring of UNIDO Secretariat and HR, change of leadership, lack of strategy and resources. Learning and development services became a separate unit, which currently does not have a team lead.

All of the above had a direct impact on COR/HRS performance, including implementation of the External Auditor's recommendations. We would expect that the new HR Leadership will accept the responsibility for the development of HR management focusing inter alia on the EA's recommendations in the HR section which could help UNIDO increase operational efficiency and achieve strategic goals.

Year	Recommendation	Status	Level of risk
2021	B.6.1. The current composition of workforce should be polished to ensure the implementation of the HR strategy	Partially implemented	High
2021	B.6.2. Staff competencies should be specified for each position	Ongoing	High
2021	B.6.4. The Staff Performance Management System requires improvement	Partially implemented	Medium
2021	B.6.5. The learning and development function requires improvement	Partially implemented	Medium
2021	B.6.6. The knowledge management system requires improvement	Partially implemented	Medium
2021	B.6.7. The recruitment process requires improvement	Partially implemented	Medium
2021	B.6.8. The workload of PMs is not assessed systematically	Partially implemented	Low

PY 2021	B.6.1. High	The current composition of workforce should be polished to ensure the implementation of the HR strategy
Full description of the recommendation		*"To be in alignment with the organizational pillars and achieve UNIDO's strategic objectives, EA recommends the following:* *a. Analyze 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)."*
Current progress		**a.** In January 2023, COR/HRS prepared a Note for Director General, which contained an analysis of UNIDO workforce based on the 2021–2022 data, as well as HR-related challenges and proposed solutions. The Note contained a list of activities to be implemented as part of the workforce planning exercise. We consider the recommendation as implemented. **b.** COR/HRS has also developed a draft HR Strategy for 2023–2025 (A Road Map for Organizational Change and Transformation) based on the new DG priorities. However, this document has not been approved. According to COR/HRS commentaries at the

	beginning of 2024, a new document, the UNIDO People Strategy, is to be developed by the end of Q3 2024. We acknowledge this important step. If the strategy is planned in the form of a road map, we would like to suggest indicating milestones and deadlines for key activities, prioritize tasks, identify responsible people and introduce a monitoring tool.
ISA holders	We also draw attention that UNIDO strategy regarding ISA holders remains unclear, although they constitute roughly two thirds of the entire UNIDO workforce. When analysing the results of the Learning and Development Needs Assessment 2023, we identified many comments on the lack of training access for ISA holders, even when it comes to technical topics and skills that are directly relevant to their job. In its operations, UNIDO relies heavily on this type of workforce who remain crucial for its continuity as an organization. At the same time ISA holders are virtually left outside of the HR processes, such as performance appraisal, trainings, staff motivation, etc. We strongly encourage UNIDO to develop a strategy aimed at including this massive part of the workforce into the key HR processes.
Management response	The outstanding para (b) will be implemented by COR/HRS by the end of Q3 2024.
Status	Partially implemented; **para (b) remains open**

PY 2021	**B.6.2.** High	**Staff competencies should be specified for each position**
Full description of the recommendation		*"EA recommends considering the following action plan for identifying and assessing competencies and closing the competencies gaps:* *1. Competency mapping* *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. Analyze and update the job profiles against the ICSC requirements.* *2. Assessment of competencies* *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."*
Current progress		**1. Competency mapping.** The High-Level Committee on Management (HLCM) conducted a survey of the UN system in early 2021 which identified that there is a high risk that workforce planning within UN organizations may be misaligned with their needs. Following this survey, and based on its own risk assessment, EIO conducted an advisory on UNIDO competencies, and with the support and cooperation of HRM and Focal Points from all Directorates/Departments/Offices prepared an advisory report, which included an annex of the most critical technical and behavioural competencies as per Directorates/Departments/Offices for particular departments, without further cascading to the separate positions for each personnel. A management action plan (MAP) was agreed to cascade the identified desired competencies from the level of departments to specific posts and then to match it with the skill set of employees currently working on those posts. In other words, the idea was to analyse how far the actual profiles of current employees are from the desirable

	profiles, in terms of competencies, and provide for recruitment, promotion, trainings/etc. to close the identified gap. Considering the Secretariat restructuring in 2022, an update of the competencies included in the advisory report in 2021 may be required, to re-align identified competencies with the new structure. According to provided commentaries, development of a UNIDO competency model will be part of the People Strategy, which is expected to be completed by the end of Q3 2024. **2. Assessment of competencies.** According to UNIDO's explanations, they do not plan to perform extensive assessment of employees' professional skills, mainly due to lack of resources for such a major exercise. At the same time, UNIDO takes steps in assessing employees' skills through the LinkedIn functionality. However, there are no specific plans to provide training based on that assessment. We encourage Management to develop a comprehensive plan and identify steps for assessing staff competencies, including the assessment of FOs staff in terms of the field reform.
Management response	The recommendation will be implemented by COR/HRS by the end of 2024.
Status	Ongoing

PY 2021	B.6.4. Medium	The Staff Performance Management System requires improvement
Full description of the recommendation		*"EA recommends considering the following improvements to Staff Performance Management:* *1. Goal setting:* *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.* • *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.* *2. Performance appraisal:* *a. Conduct professional skills assessments of employees periodically.* *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 a specific task.* *c. Perform the review of KPI progress achievement on a more frequent basis."*
Current progress		In 2023, UNIDO issued a new Framework for Performance Appraisal and Management. We reviewed it and made the following observations with respect to PY recommendations: **1.a.** We acknowledge that the newly promulgated framework contains Performance Appraisal System that has standardized for all staff members the need to assess their assigned Compact Results in terms of Quality, Quantity and Timeliness of Deliverables. We consider the recommendation implemented and suggest that the new External Auditor should assess the practical implementation of the framework.

	In addition, we note that some provisions of the document require more accurate specification and wording, for example, with respect to the length of appraisal cycle and its separate phases. HRS agreed with that and committed to address his issue as part of the framework revision which is expected to be performed after one full performance appraisal cycle. **1.b.** The new framework does not stipulate that all employees should include mandatory trainings into their KPIs, although it does include provisions on assigning trainings for professional improvement, etc. To strengthen the tone at the top in the Learning and Development function we highly recommend including the mandatory courses requirement in employees' KPIs. **2.** According to the new framework, employees are supposed to have quarterly check-ins with their supervisors to review the ongoing status of their KPIs, including professional skills assessment, and provide/receive feedback. In this regard, we consider this recommendation as implemented.
Management response	The outstanding para 1.b will be implemented by COR/HRS in 2025.
Status	**Partially implemented; para 1.b. is open**

PY 2021	**B.6.5.** Medium	**The learning and development function requires improvement**
Full description of the recommendation		*"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."*
Current progress		**a.** Since employee competencies have not been properly assessed, there is no training plan for employees aimed at closing the identified knowledge gaps. Employees participate in trainings on an ad-hoc basis rather than systematically, using available resources, including the LinkedIn learning platform with limited access. Moreover, during the Learning and Development Needs Assessment 2023, UNIDO employees noted the following: • lack of connection between trainings and job descriptions ("no learning path defined for my role and similar roles") • ISA holders and personnel in fields are not involved in UNIDO learning activities and do not have access to trainings ("Trainings not accessible to ISA holders although they are expected to perform same or similar functions as staff", "Most tailored learning is only available to P-staff and not to consultants") • proposed trainings are not structured and not embedded into the work process; there is no learning culture ("L&D is not enough normalized and institutionalized", "Training is not taken at a strategic and proactive level, by allocating time and identifying knowledge gaps"). Based on the above, we consider the recommendation not implemented and strongly encourage Management to develop learning plans for both regular staff and ISA holders after the performance of their competency's assessment (see recommendation **B.6.2.** above). **b.** The UN system benchmark for the learning budget is 2% of the total salary cost, while UNIDO's learning budget is currently ten times smaller - 0.2% of salary cost.

	Learning plans are designed based on the available budget and free training resources and not on the actual needs. Since employee competencies are not properly assessed, competencies frameworks for each position as well as the HR Strategy are not developed, and there is no specific data to justify additional funding for learning and training. We consider this recommendation not implemented. It could be closed after a comprehensive assessment of employee competencies and actual r training needs. **c.** Although UNIDO does not have a consolidated training plan and uses several learning resources (online and offline trainings, UN system trainings, LinkedIn trainings, etc.), information about all training activities is placed on the intranet and Viva Engage. Thus, employees can find all available trainings in one or two places. Considering the scarcity of resources, we believe that the current training plan arrangement is sufficient and this recommendation may be closed. **d.** UNIDO implements the Moodle Learning Management System that contains information about the trainings assigned to or selected by employees, attendance records for certain trainings, recorded trainings and webinars, etc. The system provides access to certain analytics so we encourage UNIDO to continue exploring and using this functionality, and we consider this recommendation implemented.
Management response	The outstanding paras (a) and (b) will be implemented in 2025 by COR/LED.
Status	**Partially implemented; paras (a) and (b) are open**

PY 2021	B.6.6. Medium	The knowledge management system requires improvement
Full description of the recommendation		*"EA recommends conducting the following steps to improve knowledge management:* *1. People* *a. Continue and expand the 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.* *2. Process* *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.* *3. Technology* *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."*

Current progress	**1. People** In 2023, UNIDO continues practicing in-person and online regular knowledge-sharing sessions, which are expected to gain traction. UNIDO has carried out campaigns to instil a culture of learning within the organization and many teams stepped up to share their knowledge on topics of interest. In addition, administrative process improvements are typically accompanied by one or two live webinars. In this regard, we consider the recommendation as implemented. **2. Process** **a.** As we understand, the Knowledge Management function is not assigned to any specific UNIDO unit. However, a large portion of knowledge management activities in FY 2023 was powered by COR/HRS or COR/LED, which was driving the Learning and Development community, Community Pages and other communities promoting knowledge sharing. While we acknowledge UNIDO's efforts in this respect and consider the recommendation implemented, we strongly encourage the Organization to keep improving its knowledge management function and to implement the management action plans defined in the EIO report "Knowledge management in UNIDO". **b.** There is no specific guidance on transferring knowledge about projects, which may lead to loss of important project information and subsequent unnecessary difficulties, as well as delays in the projects' implementation. The Knowledge Transfer Note templates are not tailored to the projects' handover. Therefore, they are not always used in the project handover process or may contain insufficient information on the project status. As UNIDO continues the restructuring activities both in the Secretariat and Field Offices, and the rotation of project managers and projects is likely to continue, we consider the recommendation ongoing. **c.** The organization does not have a schematic representation and step-by-step description of business processes. These could be helpful on many occasions, for example, in the restructuring to help rotated or newly hired personnel learn faster about their new functions. The need for these schemes was also highlighted by the employees who took part in the UNIDO Learning and Development Needs Assessment 2023. In this regard, we suggest COR/HRS or COR/LED encourage both technical and administrative divisions to analyse the availability of step-by-step guides and/or schematic descriptions for their business processes and recommend the development of such documents, if they are not available. **3. Technology** The efficiency of TC delivery depends, among other things, on a convenient and structured knowledge management system, which reduces the time for archiving necessary documents, frees up PMs capacity and partially helps with the handover process where applicable. As we understand, this recommendation remains not implemented, in part due resource constraints.
Management response	The outstanding paras 2 (b, c) and 3 will be implemented by COR/LED in 2025.
Status	**Partially implemented; paras 2.b, 2.c. and para 3 are open**

PY 2021	B.6.7. Medium	The recruitment process requires improvement
Full description of the recommendation		*"EA recommends considering the following steps to improve the recruitment process:* *a. Reassess all steps of the recruitment process and identify or 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."*
Current progress		**a/b.** We understand that the UNIDO has introduced the new Success Factors system and developed separate guidelines describing some steps of the recruitment process. However, the documents are scattered and there is no single consolidated file describing the entire recruitment process apart from the list of recruitment actions and timeline. The current process is lengthy (recruitment may take more than 6 months) and the bottleneck is unclear. UNIDO needs to analyse the full cycle of recruitment and draw up a unified scheme for subsequent optimization of process steps. Taking into account the large number of retirees in the near future it is crucial to ensure their effective replacement. COR/HRS committed to develop policies on both internal and external recruitment by the end of Q2 2024. We suggest that the new External Auditor should assess these documents and the way they are applied in practice. At the moment, we consider the recommendation as ongoing. **c/d.** Based on the review of the provided documents on the recruitment of permanent staff and ISA holders, we can conclude that the decisions of staff selection are fully justified and ISA holders are selected on a competitive basis, therefore the recommendations are implemented.
Management response		The paras (a) and (b) will be implemented by COR/HRS by the end Q2 2024.
Status		**Partially implemented; paras (a) and (b) are ongoing**

PY 2021	B.6.8. Low	The workload of PMs is not assessed systematically
Full description of the recommendation		*"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."*
Current progress		**a.** Since the information on the number of projects for each PM is presented on Management platforms and can be uploaded in the form of different reports, we consider this recommendation implemented. **b.** It is suggested to close this recommendation as it overlaps with B.6.2. (see above).

	c. We understand that the analysis of PMs workload was not performed and is currently not assigned to any person/division. This recommendation also correlates with: • EIO's advisory on UNIDO competencies issued in September 2021, based on which Management committed to four MAPs that are still outstanding. • Concept to increase full cost recovery and a proposal for an applied strategy for enhanced TC implementation and pipeline issued in 2023, which also contained similar recommendation on workforce analysis, but is currently delayed. We would like to highlight the practical importance of such analysis because it will allow to redistribute resources correct and will contribute to achieving the DG target of a 25 per cent annual increase in TC delivery. We believe that this complex task requires involvement of both HRS and TC divisions and we suggest creating a cross-functional work group.
Management response	The recommendation will be implemented jointly by COR/HRS and TC divisions in FY 2024–2025.
Status	**Partially implemented; para (c) is not implemented**

B.6. Corruption and fraud

Corruption and fraud are complex issues that in the lack of proper management undermine public trust, distort economic development and bar social progress. For UNIDO as a part of the United Nations system it is especially important to adhere to the highest ethical and accountability standards, which include developing and maintaining an environment with zero tolerance for fraud.

In FY 2022, we focused our assessment on the anti-corruption policies and practices applied within UNIDO, as corruption is one of the three main elements of fraud along with misappropriation of assets and misrepresentation of accounts. UNIDO demonstrated well-developed policies and processes aimed at preventing corruption, which we suggested to strengthen further based on our recommendations. In FY 2023, UNIDO made great progress, especially in terms of supplier's due diligence, and continued to update and enhance regulative documentation and training and awareness activities.

Year	Recommendation	Status	Level of risk
2022	B.2.1. Regulation of corruption risks requires improvement	Ongoing	High
2022	B.2.2. Due diligence procedures for suppliers should be improved	Implemented	Medium
2022	B.2.3. Training activities on fraud and corruption require improvement	Partially implemented	Medium
2022	B.2.4. Effectiveness of whistle-blowing hotline is not regularly analysed	Ongoing	Low

PY 2022	B.2.1. High	Regulation of corruption risks requires improvement
Full description of the recommendation		*"In order to strengthen controls over the corruption-exposed operations and minimize corruption risks, we recommend that UNIDO 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."*
Current progress		The Policy on Fraud Awareness and Prevention is expected to be updated following the outcomes of the Fraud Risk Assessment (FRA) exercise conducted by EIO across the Organization, which was aimed to identify the potential and various types of risks, areas and factors that may generally contribute to fraud and corruption. The Administrative Instruction regulating gifts, honours, decorations and favours is currently under finalization and is going to be released in 2024.
Management response		Policy on Fraud Awareness and Prevention: The recommendation will be implemented by COR/EAU in coordination with relevant Units by Q1 2025. Administrative Instruction on gifts: The recommendation will be implemented jointly by COR/EAU and COR/AML, by Q4 2024.
Status		Ongoing

A. Financial audit | B. Performance audit (B.5 HR | B.6 Corruption | Other topics) | C. IT audit

PY 2022	B.2.2. Medium	Due diligence procedures for suppliers should be improved
Full description of the recommendation		*"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."*
Current progress		**a.** In response to this recommendation, a system for electronic evaluation of suppliers for centralized procurement was introduced in FY 2023. This system prevents a purchase order closure until the evaluation report is signed, thus allowing to gather a database of evaluated suppliers. Based on the above, we consider the recommendation implemented and encourage UNIDO to extend the electronic evaluation requirement to decentralized procurement and expand the supplier database. **b.** Instead of blacklisting suppliers UNIDO has started compiling a database of suppliers through supplier evaluation forms (see paragraph (a) above) detailing the results of suppliers' performance and the overall feedback on their work. In addition, UNIDO checks the information on vendor suspensions in the United Nations Global Marketplace, so the recommendation is considered implemented. **c.** In 2023, purchases worth less than € 2 000 amounted close to € 1.5 million. As the Organization experience severe lack of resources, we suggest closing this recommendation and encourage UNIDO to initiate a random check of the completed purchases below € 2 000 in the most risk-prone regions or categories of goods.
Status		**Implemented**

PY 2022	B.2.3. Medium	Training activities on fraud and corruption require improvement
Full description of the recommendation		*"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."*
Current progress		**a.** The monitoring mechanisms are expected to be reinforced after this issuance of UNIDO's Policy on Fraud Awareness and Prevention. Thus, we consider this recommendation ongoing and suggest closing it after the policy is promulgated and monitoring mechanisms are introduced in the technical platform hosting the Anti-Fraud Training. **b.** We note a significant work of COR/EAU in terms of fraud awareness, including fraud awareness weeks and messages to all UNIDO personnel on Ethics-related issues, which allows considering this recommendation implemented.

	c. The Intranet page of COR/EAU has a section specifically dedicated to "fraud prevention" that includes, among others, a link to UNIDO mandatory online training on Fraud awareness and prevention; e-trainings from the UN system and beyond, as well as information on the fraud awareness week. In this regard, we consider this recommendation implemented.
Management response	The recommendation (a) will be implemented by COR/EAU by Q2 2025.
Status	**Partially implemented;** **para (a) is ongoing**

PY 2022	**B.2.4.** Low	**Effectiveness of whistle-blowing hotline is not regularly analysed**
Full description of the recommendation		*"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."*
Current progress		According to EIO, this recommendation will to be addressed within the Quality Assessment of the Investigation Function planned for Q1 2024. Since we have not received the assessment results at the time of the report preparation, the recommendation is still ongoing.
Management response		The recommendation will be implemented by EIO by the end of 2024.
Status		**Ongoing**

B.7. UN Resident Coordinator system

Since 2019, UNIDO has been a participant of the UN Resident Coordinator system (UNRC) that aims to bring together different UN organizations and agencies to improve the efficiency and effectiveness of operational activities at the country level. It is considered to be an additional channel for extending the number of projects implemented by UNIDO, thus, helping the Organization with its goal to increase TC delivery.

As UNIDO's contribution to the UNRC system amounted to $5.2 million in 2020–2021 ($4.2 million in 2022–2023), it was decided to analyse its benefits to the Organization and report on the results to the stakeholders within the FY 2021 audit. Since then, UNIDO has made a great progress in implementing the recommendations, with only one item left.

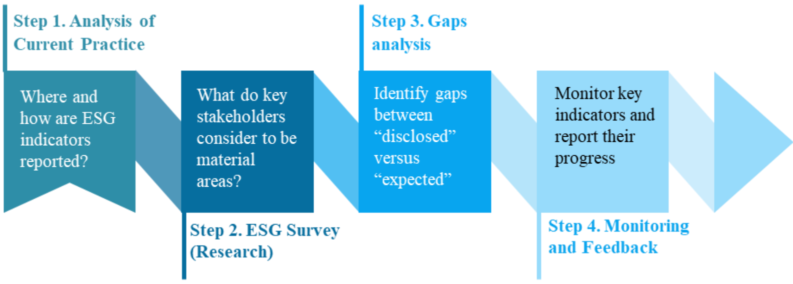
Year	Recommendation	Status	Level of risk
2021	B.5.1. Benefits from participation in the UNRC system shall be considered on the ongoing basis and reported	Partially implemented	Medium

PY 2021	B.5.1. Medium	Benefits from participation in the UNRC system shall be considered on the ongoing basis and reported
Full description of the recommendation		*"Taking into account Management's progress in the UNRC implementation, EA recommends Management:* *a. Continue evaluating the efficiency of participation in the 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 of 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."*
Current progress		**a.** We acknowledge UNIDO's efforts in keeping Member States informed about the cooperation with the UNRC system through embedding in the Annual Report 2022 a short paragraph with high-level commentaries on the nature of cooperation between UNIDO and UNRC. However, it does not indicate the results achieved through this cooperation. Taking into account that some Member States express concerns about participation in the UNRC system, we encourage UNIDO to provide more details for Member States in its annual reports on the results and benefits of cooperation with UNRC. **b.** For the cooperation with UNRC, UNIDO currently applies indicators such as (1) the number of UN country teams (UNCTs) in which UNIDO is a member and (2) the number of UN Sustainable Development Cooperation Frameworks signed. We agree that these indicators are a decent measure and encourage UNIDO to show the results under these indicators in its annual reports. We suggest closing the recommendation, although it is important to note that participation in UNCTs and signing UNSDCFs should not be the ultimate goals as these are only first steps on the route to SDG achievement and UNIDO should make a deliberate, goal-oriented effort to derive development cooperation activities from UNSDCFs.

	c. Based on the provided information we understand that UNIDO is actively participating in 100+ UNCTs, and therefore, we suggest closing this recommendation. However, in fast-changing it is crucial for UNIDO to stay in touch with partners and make sure that UNRCs are aware of UNIDO's plans, strategies and aspirations in each region and, country. Annual check-ins with all relevant UNRCs at least once a year appear to be a suitable arrangement and would be strongly encouraged.
Management response	The recommendation (a) will be implemented by ODG/SPU by Q1 2025
Status	**Partially implemented; para (a) is ongoing**

B.8. ESG reporting

In FY 2021, we performed an extensive analysis of UNIDO's ESG reporting practices based on a four-step approach:



As a result of our analysis, we developed six extensive recommendations. Three of them were resolved in 2022 and two in 2023. The only outstanding recommendation relates to the presentation of the Organization's results in the Annual Report. In 2022, UNIDO reconsidered its approach to the Annual Report structure and is currently fine-tuning it, so we understand the outstanding recommendation will be implemented within this fine-tuning process.

We would like to acknowledge UNIDO's great effort in achieving the SDG and ESG goals and its commitment to present the results to the stakeholders in a clear and transparent manner.

Year	Recommendation	Status	Level of risk
2021	B.1.2. Indicators in the Annual Report may skip comparative data	Ongoing	Medium
2021	B.1.3. "Success stories" and the small number of indicators may focus the attention of stakeholders on a small portion of UNIDO's business	Implemented	Medium
2021	B.1.6. Current ESG reporting does not include a number of relevant disclosures	Implemented	High

PY 2021	B.1.2. Medium	Indicators in the Annual Report may skip comparative data
Full description of the recommendation		*"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."*
Current progress		The UNIDO Annual Report 2022 was prepared under the new approach. The report structure was updated. and Annex M included the Results-Based Budgeting (RBB) indicators, with actual data on the 2022 results and the Programme and Budget targets for 2022–2023. We acknowledge UNIDO's effort in this regard, however, we also encourage the Organization to provide comparative data for previous years in order to demonstrate the trend. In addition, we noted that for most indicators the actual results for year 2022 exceeded the targets set for the whole biennium 2022–2023. This may indicate flaws in the goal setting process, and we strongly encourage UNIDO to look into this issue. We also suggest the next External Auditor should make a follow up assessment in this regard.
Management response		The recommendation will be implemented by GLO/PMO by 2Q 2024.
Status		Ongoing

Regarding recommendations B.1.3. and B.1.6., we were provided with the approach developed by UNIDO for the selection of "success stories" to be featured in the Annual Report. We also understand that a review of IRPF indicators and a revision the principles of reporting to Member States is planned as part of preparing the MTPF 2026–2030. These recommendations are considered closed.

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

C. Information Technology (IT)

Key recommendations:

Recommendations	Status	Level of risk
C.1. Information technology general controls (ITGC)		
C.1.1. ITGC. SAP privileged account management	Partially implemented	High
C.1.2. ITGC. Privileged access rights within the change management process	Partially implemented	Medium
C.1.3. ITGC. Segregation of duties among business users	Partially implemented	High
C.1.4. ITGC. Security settings in SAP	Implemented	High
C.1.5. ITGC. Removing access rights from dismissed/resigned employees	Partially implemented	Medium
C.1.6. ITGC. Monitoring of SAP automated jobs	Implemented	Low
C.2. Cybersecurity		
C.2.3. Cyber (FY2020). Vulnerability management process needs improvement	Implemented	Medium
C.2.4. Cyber (FY 2020). Access was gained to sensitive data from an internal information exchange service	Implemented	Medium

We performed an evaluation of Information technology general controls (ITGC) 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 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 FY2022 along with testing IT general controls within the defined audit scope. We also provided updates on remediation of previously identified cybersecurity deficiencies.

Overall, our approach included the following:

- **Review of control documentation** (including policies, standards, operating instructions, etc.): We 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**: We 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).

Based on our evaluation and validation of IT general controls and the conclusion reached in FY2023, our overall opinion is that the External Auditor cannot rely on IT general controls due to deficiences in the areas of access management, including privileged access management and controls over removing access rights from dismissed/resigned employees, and unclear segregation of duties among business users. This results in additional procedures performed by the External Auditor and requires additional attention to the data extracted from UNIDO's key IT systems (SAP ERP and SAP SRM).

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 by scrutiny of the development of an effective control design and the implementation of monitoring procedures.

We acknowledge UNIDO Management efforts to remediate the control deficiencies identified in FY 2022. 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 has addressed the issue. Nevertheless our conclusion remains unchanged despite the progress.

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

PY 2022	**C.1.1.** High	**SAP privileged account management**
Full description of the recommendation		*'We recommend considering the following general practices to enhance SAP privileged account management:* *a. Perform a review of access 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 has 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).'*
Current progress		**a.** We noted a reduced number of accounts with such access. However, we identified in FY2023 instances of excessive rights and a security incident involving creation of an active non-personified privileged user account without approval. We have been informed by the Management on the progress being made. However, privileged accounts allow users to perform sensitive transactions that might affect financial data. Due to the deficiencies identified in 2023FY we noted the controls in this domain remain unreliable. Therefore, the risk level is high. **b.** An access review procedure is in place, but a complete review of access rights is in progress.

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

	c. We noted the introduction of a new monitoring procedure and obtained a sample of report for Q2 and Q4 of FY 2023. We conclude that our recommendation has been implemented. **d.** The third-party access noted during the FY 2022 audit has been deactivated.
Management response	Agreed and will be implemented in FY2024.
Status	Partially implemented: **para (a), (b) are ongoing**

PY 2022	**C.1.2.** Medium	**Privileged access rights within the change management process**
Full description of the recommendation		*'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 the 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.'*
Current progress		**a.** We noted a reduced number of accounts with access rights for transport of changes, debugging and changing system settings, however instances of excessive rights provision and a security incident involving creation of an active non-personified privileged user account without approval were noted in FY 2023. In particular, as of 31.12.2023 access to debugging in SAP ERP, SAP SRM was provided to S Service type user accounts, and to a business user in SAP SRM. Assignment of debugging should be limited as far as possible since any authorization checks can be bypassed with this authorization, and it allows users to change data during processing. At the same time, S Service type accounts can be used for multiple dialog logons that are not logged, which makes them challenging for monitoring. It is recommended to provide personalized access via dialog account types and limit access for S Service type accounts. We were informed by the Management that necessary corrections were made in Q1 2024, and privileged rights in question are being controlled. We noted these improvements are subject to independent audit procedures to be conducted by the new External Auditor in FY 2024. **b–c.** We noted introduction of a new monitoring procedure and obtained a sample of report for Q2 and Q4 2023 and noted the recommendation is implemented. **d.** We noted that during FY 2022 audit the third-party access was deactivated.
Management response		Agreed and the solution has been fully implemented in Q1 2024.
Status		Partially implemented; **para (a) is ongoing**

PY 2022	C.1.3. High	Segregation of duties among business users
Full description of the recommendation		*'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 a conflicts matrix for each system;* *b. Analyze composite roles developed within SAP ERP and SAP SRM for SoD conflicts defined in a conflicts matrix in the previous step; divide conflicting access rights across independent roles;* *c. Analyze 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.'*
Current progress		**a.** We noted a reduced number of accounts with such access. However, instances of excessive rights provision and a security incident were identified in 2023. The control could be improved during the access review. **b.** A draft role matrix has been developed, and a role concept for business users is being developed. **c.** A review of access rights is being conducted, with instances of excessive access still noted in FY 2023. **d.** Standardized profiles with allocation of roles have not been established for all business users positions depending on the business function.
Management response		Agreed and strong collaboration with business process owners is required for effective and timely implementation of this control. The recommendation will be implemented in FY2024.
Status		Partially implemented; **para (a) – (d) are ongoing**

PY 2022	C.1.4. High	Security settings in SAP
Full description of the recommendation		*'We recommend that UNIDO 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.'*
Current progress		We noted the promulgation of a detailed password policy in 2023, which defined security parameters (minimum password length, maximum days before password change, etc.) within the Organization. We noted the password policy was applied to the SAP backend systems and Microsoft Active Directory. We also noted that a multi-factor authentication (MFA) was enabled for a range of applications in 2023, including external access to SAP. Therefore, the recommendation is considered as implemented.
Status		**Implemented**

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

PY 2022	C.1.5. Medium	**Removing access rights from dismissed/resigned employees**
Full description of the recommendation		*'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).'*
Current progress		**a.** As we previously noted, Management has taken actions to remediate the deficiency related to a discrepancy in dates between HR records and SAP ERP systems. However, during FY2023 we identified one account of a dismissed employee that was not timely locked in SAP ERP and SAP SRM (not locked after employees' contract expiration date plus the seven-day grace period as per the Organization's policy). The accuracy checks have to be reviewed. **b.** A periodic review of user accounts of separated employees has been implemented.
Management response		Agreed and we will re-instate the daily locking of user accounts in FY2024.
Status		**Partially implemented; para (a) is ongoing**

PY 2022	C.1.6. Low	**Monitoring of SAP automated jobs**
Full description of the recommendation		*'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 jobs that are no longer needed;* *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.).'*
Current progress		**a.** Automated jobs have been reviewed, unneeded jobs have been cleaned. **b.** Automated notification of SAP administrators was introduced to send messages on failed jobs. Failed jobs are constantly monitored and corrective actions are taken if needed.
Status		**Remediated**

PY 2020	C.2.3. Medium	**Vulnerability management process needs improvement**
Full description of the recommendation		*'We recommend that UNIDO perform regular assessments of internal and external vulnerabilities. These assessments may also be supported by external penetration tests. Automated vulnerability assessment scans should be performed regularly.* *Vulnerabilities need to be assessed, prioritized and treated.'*
Current progress		We noted UNIDO performs regular automatic scans. When issues are identified, respective tickets are raised, vulnerabilities are treated, and respective reports are issued. UNIDO also performs external penetration tests via third party providers. In addition, a documented procedure on the identification, assessment, prioritization and treatment of vulnerabilities has been developed and implemented.
Status		**Remediated**

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

PY 2020	**C.2.4.** Medium	**Access was gained to sensitive data from an internal information exchange service**
Full description of the recommendation		*'We recommend that UNIDO consider taking measures to increase the overall level of cybersecurity and reduce the risk of* *real attackers employing the vulnerabilities discovered during the audit.* *These following recommendations have the highest priority:* • *address the technical vulnerabilities described in the detailed report;* • *improve security on the xfiles.unido.org service with additional technical controls.* *These recommendations have the second highest priority:* *implement set of measures to prevent password guessing (like CAPTCHA-test);* • *improve or implement detection and response capabilities (like EDR, IDS/IPS, SOC);* • *start a vulnerability assessment and incident management program.'*
Current progress		We noted substantial progress on some issues raised during the FY 2022 audit. The remaining issues identified during prior year audits resulted from the usage of xfiles.unido.org which was successfully decommissioned in 2023, with users migrated to a secured OneDrive cloud. Based on the above, the recommendation is considered implemented.
Status		**Remediated**

ANNEX 1. FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

Report by the Director General

1. I am pleased to present the 2023 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 the previous biennium, are shown below in millions of euros.

Table 1
Assessed contributions

	2022–23		*2020–21*	
	Millions of euros	*Percentage*	*Millions of euros*	*Percentage*
Assessed contributions receivable	141.9	100.0%	138.9	100.0%
Received by the end of biennium	132.2	93.2%	124.9	89.9%
Shortfall in collections	9.6	6.8%	14.0	10.1%

3. The rate of collection of assessed contributions for the biennium 2022–23 was 93.2 per cent, which is higher than that for 2020–21 at 89.9 per cent. The accumulated outstanding assessed contributions at year-end were €21.7 million, excluding an amount of €71.2 million due from former Member States, leading to a decrease from 2022 (€27.2 million). Annex I (e), contained in conference room paper PBC.40/CRP.2 provides details on the status of assessed contributions. At present, one Member State is under payment plan agreement to settle its arrears. The number of Member States without voting rights was 49 in December 2023 – in comparison to 42 in December 2022.

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 2023.

6. The comparison is based on the programme and budgets for the biennium 2022–23, as adopted by the General Conference at its nineteenth session (decision GC.19/Dec.16), consisting of a regular budget gross expenditure of €145.9 million to be financed from assessed contributions in the amount of €141.8 million and other income, efficiency gains and all available resources of €4.1 million.

7. On a budget basis, the actual regular budget expenditure during the biennium 2022–23 amounted to €139.6 million (compared with €132.7 million for the biennium 2020–21), or 95.7 per cent (compared with 92.1 per cent for the biennium 2020–21) of the approved gross expenditure budget.

8. The actual collection of other income for the biennium 2022–23 amounted to €2.1 million, including from government contributions to the cost of the field office network, miscellaneous income and financing towards the budgetary gap. The total net expenditure of €137.5 million represents 96.9 per cent of the net regular budget appropriations of €141.8 million. The resulting balance of net appropriations as at 31 December 2023 amounted to €4.4 million (see annex I (a) and I (b), PBC.40/CRP.2).

9. In the operational budget for the year 2023, the reimbursement for programme support costs amounted to €25.6 million (for 2022: €18.2 million). Expenditure was recorded in the amount of €19.0 million (for 2022: €18.4 million), resulting in a surplus in the amount of €6.6 million (2022: deficit of €0.2 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 €33.9 million, compared with an opening balance of €27.3 million, along with a statutory operating reserve of €3.0 million. Through cost recovery, the Organization generated €2.9 million in 2023 (2022: €2.6 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 2023, as measured under IPSAS, amounted to €241.6 million in expenditure, compared to €218.0 million in 2022. More information on UNIDO's technical cooperation services is available in the *Annual Report of UNIDO 2023* (PBC.40/2-IDB.52/2).

11. The cash balance of €420.2 million (2022: €390.1 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) in 2017 (Board decisions IDB.44/Dec.3 and IDB/48/Dec.5 refer), the governance and independence of the oversight functions in UNIDO have been further strengthened. 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 the Director General's Bulletin DGB/2020/11, both the EIO and the OAC report independently on their activities to the Industrial Development Board.

Conclusion

14. In 2023, UNIDO increased delivery of its services by 25 per cent, resulting, along with increased cost recoveries, miscellaneous income and cost efficiencies in a surplus of €6.6 million in the operational budget. These efforts shall be continued in 2024 to strengthen UNIDO's contribution to solving pressing global needs. By improving internal financial mechanisms, such as full cost recovery, UNIDO will continue to follow its growth path at the service of its Member States.

15. In this spirit, I wish to take this opportunity to express my appreciation to Member States for their generous financial contributions and continuous support to our work. Without this, and efforts of all UNIDO personnel, we would not have been able to make such significant progress in 2023.

Gerhard Müller
Director General

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 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

Meemi Taalas
Director, Financial Services,
Corporate Services and Operations

Vienna, 27 March 2024

UNIDO
Statement 1: Statement of financial position as at 31 December 2023
(*Thousands of euros*)

	Note	31 December 2023	31 December 2022 (restated)
		€ '000	*€ '000*
ASSETS			
Current assets			
Cash and cash equivalents	*2*	512,125	488,876
Accounts receivable (non-exchange transactions)	*3*	102,413	147,151
Receivables from exchange transactions	*3*	5,442	4,038
Inventory	*4*	730	802
Other current assets	*5*	31,501	27,957
Total current assets		**652,211**	**668,824**
Non-current assets			
Accounts receivable (non-exchange transactions)	*3*	157,822	124,061
Property, plant and equipment	*7*	46,919	61,231
Intangible assets	*8*	364	567
Other non-current assets	*9*	4,784	6,069
Total non-current assets		**209,889**	**191,928**
TOTAL ASSETS		**862,100**	**860,752**
LIABILITIES			
Current liabilities			
Accounts payable (exchange transactions)	*10*	13,877	11,808
Employee benefits	*11*	11,526	11,938
Transfers payable (non-exchange transactions)	*10*	39,411	26,948
Advance receipts and deferred income	*12*	96,411	87,490
Other current and financial liabilities	*13*	34,345	32,944
Total current liabilities		**195,570**	**171,128**
Non-current liabilities			
Employee benefits	*11*	167,421	160,095
Other non-current liabilities	*13, 22*	24,062	26,451
Total non-current liabilities		**191,483**	**186,546**
TOTAL LIABILITIES		**387,053**	**357,674**
NET ASSETS			
Accumulated surpluses/(deficits) and fund balances	*14*	453,126	481,761
Reserves	*15*	21,921	21,317
TOTAL NET ASSETS		**475,047**	**503,078**
TOTAL LIABILITIES AND NET ASSETS		**862,100**	**860,752**

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

UNIDO
Statement 2: Statement of financial performance for the year ended 31 December 2023
(*Thousands of euros*)

	Note	31 December 2023	31 December 2022 (restated)
		€ '000	*€ '000*
REVENUE			
Assessed contributions	*16*	70,928	70,928
Voluntary contributions	*16*	234,184	227,882
Investment revenue	*16*	3,884	645
Revenue producing activities	*16*	24,459	22,747
Other income	*16*	2,520	2,581
TOTAL REVENUE		**335,975**	**324,783**
EXPENDITURE			
Personnel costs and benefits	*17*	145,303	141,229
Operational costs	*17*	56,595	39,951
Contractual services	*17*	101,553	91,796
TC equipment expensed	*17*	24,713	27,124
Depreciation and amortization	*17*	5,836	6,731
Other expenses	*17*	1,854	3,145
TOTAL EXPENDITURE		**335,854**	**309,976**
Operating Surplus/(Deficit)		**121**	**14,807**
Currency translation gains/(losses)	*17*	(22,165)	31,704
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD		**(22,044)**	**46,511**

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 2023
(*Thousands of euros*)

	Note	Accumulated surplus/(deficit)	Reserves	Total net assets
			€ '000	
Net assets as at 31 December 2021		**349,733**	**20,885**	**370,618**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities		89,463		89,463
Transfer to/(from) reserves			432	432
Other movements recognized directly in net assets		(27)		(27)
Change in carrying amount for assessed contributions receivables (restatement)	23	(1,850)		(1,850)
Net movements recognized directly in net assets		**87,586**	**432**	**88,018**
Credits to Member States		(2,069)		(2,069)
Net surplus/(deficit) for the year (restated)	23	46,511		46,511
Total movement during the year		**132,028**	**432**	**132,460**
Net assets as at 31 December 2022 (restated)	14,15	**481,761**	**21,317**	**503,078**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities	11,14	(3,330)		(3,330)
Transfer to/(from) reserves	15		604	604
Other movements recognized directly in net assets	14	(79)		(79)
Net movements recognized directly in net assets	14,15	**(3,409)**	**604**	**(2,805)**
Credits to Member States	14,15	(3,182)		(3,182)
Net surplus/(deficit) for the year		(22,044)		(22,044)
Total movement during the year		**(28,635)**	**604**	**(28,031)**
Net assets as at 31 December 2023		**453,126**	**21,921**	**475,047**

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

UNIDO
Statement 4: Cash flow statement for the year ended 31 December 2023
(*Thousands of euros*)

	Note	31 December 2023	31 December 2022 (restated)
		€ '000	*€ '000*
Cash flows from operating activities			
Surplus/(deficit) for the period		**(22,044)**	**46,511**
Unrealized foreign exchange (gains)/losses		22,154	(19,743)
Depreciation and amortization	7,8	5,836	6,731
Credits to Member States	14	(3,182)	(2,069)
Valuation gains/(losses) on employee benefit liabilities	14	(3,330)	89,463
(Increase)/decrease in inventories	4	72	(50)
(Increase)/decrease in receivables	3	9,573	(26,106)
(Increase)/decrease in other assets	5	(2,259)	(6,222)
Increase/(decrease) in advance receipts and deferred income	12	8,921	11,885
Increase/(decrease) in accounts payable	10	14,532	(4,174)
Increase/(decrease) in employee benefits	11	6,914	(82,968)
Increase/(decrease) in other liabilities and provisions	13	(988)	(650)
(Gains)/losses on sale of property, plant and equipment	7	22,487	24,400
Investment/interest income (net)	16	(9,837)	(2,158)
Transfers to reserves	14,15	604	432
Other movements		(79)	(1,877)
Net cash flows from operating activities		**49,374**	**33,405**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(13,784)	(20,819)
Purchase of intangible assets	8	(14)	(91)
Proceeds from sale of property, plant and equipment	7	(10)	31
Net cash flow from investments interest		9,837	2,158
Net cash flows from investing activities		**(3,971)**	**(18,721)**
Net increase/(decrease) in cash and cash equivalents		**45,403**	**14,684**
Cash and cash equivalents at beginning of the financial period		488,876	454,449
Unrealized foreign-exchange gains/(losses)		(22,154)	19,743
Cash and cash equivalents at the end of the financial period	2	**512,125**	**488,876**

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 2023
(*Thousands of euros*)

Regular budget	*Note*	Original budget	Final budget	Actuals on comparable basis	Balance
				€ '000	
Income					
Assessed contributions	*16*	71,855	70,928	70,928	-
Regional programme		320	507	344	163
Miscellaneous income		1,611	1,316	(473)	1,789
Total income		**73,786**	**72,751**	**70,799**	**1,952**
Cost component					
Staff costs		48,768	49,508	47,783	1,725
Official travel		801	1,159	660	499
Operating costs		15,623	18,674	16,645	2,029
Information and communication technology		3,792	5,178	3,281	1,897
Regular programme of technical cooperation, and special resources for Africa		4,802	4,932	4,758	174
Total costs		**73,786**	**79,451**	**73,127**	**6,324**
Balance for the period		**-**	**(6,700)**	**(2,328)**	**(4,372)**

Operational budget	Original budget	Final budget	Actuals on comparable basis	Balance
			€ '000	
Income				
Support costs income	19,602	22,464	24,627	(2,163)
Miscellaneous income	50	(1,059)	962	(2,021)
Total income	**19,652**	**21,405**	**25,589**	**(4,184)**
Cost component				
Staff costs	18,457	18,936	18,019	917
Official travel	1,116	2,298	969	1,329
Operating costs	79	210	39	171
Total costs	**19,652**	**21,444**	**19,027**	**2,417**
Balance for the period	**-**	**(39)**	**6,562**	**(6,601)**

Total	Note	Original budget	Final budget	Actuals on comparable basis	Balance
		€ '000			
Income					
Assessed contributions		71,855	70,928	70,928	-
Support costs income		19,602	22,464	24,627	(2,163)
Regional programme		320	507	344	163
Miscellaneous income		1,661	257	489	(232)
Total income		**93,438**	**94,156**	**96,388**	**(2,232)**
Cost component					
Staff costs		67,225	68,444	65,802	2,642
Official travel		1,917	3,457	1,629	1,828
Operating costs		15,702	18,884	16,684	2,200
Information and communication technology		3,792	5,178	3,281	1,897
Regular programme of technical cooperation, and special resources for Africa		4,802	4,932	4,758	174
Total costs	18	**93,438**	**100,895**	**92,154**	**8,741**
Balance for the period		**-**	**(6,739)**	**4,234**	**(10,973)**

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 172 Member States (2022: 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 medium-term programme framework (MTPF) 2022–2025, especially in the priority areas 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 2022), comprising regional hubs and country offices covering over 120 countries.

Basis of preparation

1.8 The financial statements of UNIDO are maintained in accordance with article X of the Financial Regulations of the Organization, 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 (VIC) 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 2023 and ending on 31 December 2023.

Currency and basis for conversion

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

Translation and conversion of currencies

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

1.15 Monetary assets and liabilities denominated in other currencies are converted into euros at the publicly available United Nations operational rate of exchange 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 (COMFAR), 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

Financial assets

1.27 The new standard on financial instruments, IPSAS 41, became effective on 1 January 2023 and replaced the previous standard, IPSAS 29. The key impact on UNIDO's accounting is a forward-looking impairment model that leads to changes in the amount of allowance for doubtful accounts based on expected credit losses. UNIDO applied IPSAS 41 as required, and recognized the effect of its initial application in the opening accumulated surplus or deficit as at 1 January 2023. The Organization decided to apply a retrospective approach for IPSAS 41, as a result of which the 2022 financial statements were restated.

1.28 UNIDO recognizes in surplus or deficit (as an impairment gain and loss), as a loss allowance for lifetime expected credit losses (ECL) on a financial asset regardless of credit risk increase. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e. the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). While calculating ECL, UNIDO applies historical credit loss experience (provision matrix).

1.29 Event of default:

- Assessed contributions: A Member State has failed to pay for more than one year;
- Voluntary contributions, receivables from revenue producing activities and other assets: After passing a rebuttable presumption of 90 days, from the due date.

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

Cash and cash equivalents

1.31 Cash and cash equivalents are recognized at amortized cost and include cash on hand and liquid time deposits held with financial institutions.

Receivables

1.32 Receivables are recognized at amortized costs. Loss allowances are based on lifetime expected credit losses and recognized in the statement of financial performance.

Advances

1.33 Advances are recognized initially at nominal value. Allowances for estimated irrecoverable amounts are recognized when there is objective evidence that the asset is impaired in the statement of financial performance.

Financial risks

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

- Currency risk. The Organization receives contributions from Member States and donors partly in currencies other than the currency of the expenditure and is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. Currency risk is mitigated mainly due to the fact, that contracts are primarily concluded and executed in the currencies in which the donors fund the projects.
- Interest rate risk. The Organization deposits its funds only in short-term fixed interest accounts and therefore has no significant interest rate risk exposure.
- Credit risk. The Organization has no significant exposure to credit risk because its contributing Member States, donors and other counterparties are generally of high credit standing.
- Counterparty risk. UNIDO 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

1.35 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” 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.

1.36 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

1.37 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.

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

1.39 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.

1.40 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

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

1.42 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.

1.43 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.

1.44 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

1.45 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

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

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

1.48 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

1.49 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

1.50 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

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

1.52 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.

1.53 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.

1.54 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

1.55 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

1.56 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.

1.57 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 UNJSPF, 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

1.58 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.

1.59 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

1.60 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.

1.61 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

1.62 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.

1.63 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.

1.64 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, investing and financing activities presented in the financial statements, identifying separately any basis, timing and entity differences.

Related party disclosures

1.65 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.

1.66 The key management personnel of UNIDO are the Director General, the Deputies to the Director General, and the Managing Director, 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

1.67 In 2023, the IPSAS Board published IPSAS 45, "Property, Plant and Equipment" and IPSAS 46, "Measurement", with an effective date of 1 January 2025, as well as IPSAS 47, "Revenue", IPSAS 48, "Transfer Expenses" and IPSAS 49, "Retirement Benefit Plans", with an effective date of 1 January 2026. UNIDO will be adopting the new standards, as required, and believes that their adoption will have no major impact on the financial statements, except the adoption of IPSAS 47, "Revenue", which requires, for binding arrangements, revenue recognition upon satisfying the compliance obligation, measured at transactional consideration, which is the amount of resources to which an entity expects to be entitled for satisfying a compliance obligation.

Note 2. Cash and cash equivalents

	Note	*31 December 2023*	*31 December 2022*
		(thousands of euros)	
Cash and cash equivalents			
Cash in the bank and on hand		40,996	49,104
Short-term deposits	2.4	466,851	436,487
Cash and cash equivalents held in field offices	2.5	4,278	3,285
Total cash and cash equivalents	**2.1**	**512,125**	**488,876**

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 €420,207 (2022: €390,090), for Buildings Management Services activities €43,584 (2022: €44,776) and for the Major Repair and Replacement Fund €851 (2022: €885).

2.2 Cash and cash equivalents include cash and short-term deposits equivalent to €212,733 (2022: €241,778) 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 €3,308 (2022: €2,611) 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 3.08 per cent and 5.95 per cent for holdings in euros and United States dollars respectively (2022: 0.25 per cent and 1.73 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.

2.7 For the purpose of expected credit loss (ECL) measurement in accordance with IPSAS 41, UNIDO analysed that for cash and cash equivalents balances, credit risk did not increase significantly. The ECL for these balances represents an immaterial amount, therefore UNIDO did not recognize any credit loss allowance for cash and cash equivalents.

Note 3. Accounts receivable

	31 December 2023	*31 December 2022 (restated)*
	(thousands of euros)	
Current		
Receivable from non-exchange transactions		
Voluntary contributions receivable	94,120	135,149
Due from Member States: assessed contributions	92,833	98,266
VAT and other taxes recoverable	4,092	2,937
Due from Member States: other	7	25

	31 December 2023	31 December 2022 (restated)
	(thousands of euros)	
Total accounts receivable before allowance	**191,052**	**236,377**
Allowance for expected credit losses	(88,639)	(89,226)
Net accounts receivable from non-exchange transactions	**102,413**	**147,151**

	31 December 2023	31 December 2022
	(thousands of euros)	
Receivable from exchange transactions		
Receivables from United Nations organizations	4,514	2,763
Receivables: other	1,605	1,952
Allowance for expected credit losses	(677)	(677)
Net accounts receivable from exchange transactions	**5,442**	**4,038**

	31 December 2023	31 December 2022 (restated)
	(thousands of euros)	
Non-current		
Receivable from non-exchange transactions		
Voluntary contributions receivable	157,772	124,061
Due from Member States: assessed contributions	50	100
Allowance for expected credit losses: assessed contributions	-	(100)
Total receivable from non-exchange transactions	**157,822**	**124,061**

3.1 Accounts receivable are shown net of allowance for expected credit losses. Allowance for uncollected assessed contributions is based on event of default, when the Member State has failed to pay for more than one year, after the beginning of the year to which they relate. Loss given at default is estimated as follows:

	2023	2022
Length of time the latest contribution is in default	*(percentage)*	*(percentage)*
7 years and more	100	100
5–6 years	80	80
3–4 years	60	60
1–2 years	30	30

For voluntary contributions and receivables from revenue producing activities and other assets, the event of default starts after passing the rebuttable presumption of 90 days from the due date.

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

	31 December 2023	31 December 2022 (restated)
	(thousands of euros)	
Allowance for expected credit losses at the beginning of the year	**87,140**	**83,403**
Charge of allowance for the year	(439)	3,737
Allowance for expected credit losses at the end of the year	**86,701**	**87,140**

3.3 Total allowances for expected credit losses of €89,317 (2022: €90,002) consist of €86,701 (2022: €87,140) against assessed contributions receivable and €2,615 against other receivables and tax claims (2022: €2,862). No allowance was made in respect of voluntary contributions receivable.

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.40/CRP.2 provides details of the status of assessed contributions.

3.6 Reconciliation of the ending impairment allowances in accordance with IPSAS 29 to the opening loss allowances has been determined in accordance with IPSAS 41.

	Carrying value per IPSAS 29 (31 December 2022)	*Expected credit loss re-measurement*	*Carrying value per IPSAS 41 (31 December 2022)*
Assessed contributions receivable	13,076	(1,850)	11,226
Voluntary contributions receivable	259,210	-	259,210
Other accounts receivable	4,814	-	4,814

Note 4. Inventories

	31 December 2023	*31 December 2022*
	(thousands of euros)	
Opening inventory	802	752
Purchased during the year	235	318
Total inventory available	**1,037**	**1,070**
Less: consumption	(307)	(265)
Less: write-up/(down)	-	(3)
Closing inventory	**730**	**802**

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

Note 5. Other current assets

	Note	*31 December 2023*	*31 December 2022*
		(thousands of euros)	
Advances to vendors	5.1	24,172	22,067
Advances to staff	5.2	2,947	2,879
E-IOV items	5.3	307	945
Accrued interest and other current assets	5.4	4,075	2,066
Total other assets		**31,501**	**27,957**

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

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

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

5.4 Accrued interest due from investments from short-term deposits (Note 2.4).

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:

2023	13.956 per cent
2022	14.490 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 2023 (thousands of euros)	*31 December 2022 (thousands of euros)*
Income	15,129	15,503
Expenses	15,129	15,503
Assets, non-current	201,478	209,019
Liabilities, non-current	201,478	209,019
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 2023 (thousands of euros)	*31 December 2022 (thousands of euros)*
Income	5,550	5,335
Expenses	5,668	5,467
Assets, current	12,901	13,722
Liabilities, current	1,269	1,972
Net assets	11,632	11,750

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 2023 (thousands of euros)	*31 December 2022 (thousands of euros)*
Income	29,660	26,538
Expenses	32,570	25,727
Assets, current	49,475	50,360
Assets, non-current	1,190	1,468
Liabilities, current	24,007	23,016
Liabilities, non-current	20,458	19,149
Net assets	6,200	9,662

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 2023 constituted €2,451 (2022: €2,294).

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 €2,286 and €240 (2022: 2,239 and €256), 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 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	1,379	13,654	2,599	9,478	**70,364**
Depreciation charge during the year		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**

	TC Construction in progress	Buildings	Furniture and fixtures	Information and communications technologies equipment	Vehicles	Machinery	*Total*
	(thousands of euros)						
Net book value							
At 31 December 2021	**10,850**	**31,521**	**1,162**	**2,271**	**1,973**	**23,570**	**71,347**
At 31 December 2022	**10,185**	**30,288**	**912**	**2,372**	**1,973**	**15,501**	**61,231**

	TC Construction in progress	Buildings	Furniture and fixtures	Information and communications technologies equipment	Vehicles	Machinery	*Total*
	(thousands of euros)						
Cost							
At 31 December 2022	10,185	75,479	2,345	16,661	4,727	21,415	**130,812**
Additions	5,953	1,032	470	1,547	998	3,783	**13,783**
Impact of change in VIC cost-sharing ratio	-	(2,782)	-	-	-	-	**(2,782)**
Disposals/transfers	(10,184)	(268)	(303)	(1,363)	(919)	(13,579)	**(26,616)**
At 31 December 2023	**5,954**	**73,461**	**2,512**	**16,845**	**4,806**	**11,619**	**115,197**
Accumulated depreciation							
At 31 December 2022	-	45,191	1,433	14,289	2,754	5,914	**69,581**
Depreciation charge during the year	-	1,816	241	1,093	486	2,022	**5,658**
Impact of change in VIC cost-sharing ratio	-	(1,665)	-	-	-	-	**(1,665)**
Disposals/transfers	-	-	(102)	(712)	(267)	(4,215)	**(5,296)**
At 31 December 2023	**-**	**45,342**	**1,572**	**14,670**	**2,973**	**3,721**	**68,278**
Net book value							
At 31 December 2022	**10,185**	**30,288**	**912**	**2,372**	**1,973**	**15,501**	**61,231**
At 31 December 2023	**5,954**	**28,119**	**940**	**2,175**	**1,833**	**7,898**	**46,919**

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 2023, the review indicated no impairments.

7.3 The gross carrying amount (value at cost) of fully depreciated property, plant and equipment items, excluding buildings, still in use amounts to €6,463 (2022: €5,431) at the period end.

7.4 The asset class Buildings includes UNIDO share of assets under construction of the Vienna International Centre of €169 (2022: €279), 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 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**

	Software acquired externally	*Internally developed software*	*Total*
	(thousands of euros)		
Costs			
At 31 December 2022	1,919	5,338	**7,257**
Additions	14	-	**14**
Disposals/transfers	(64)	-	**(64)**
At 31 December 2023	**1,869**	**5,338**	**7,207**
Accumulated amortization			
At 31 December 2022	1,352	5,338	**6,690**
Amortization charge during the year	178	-	**178**
Disposals/transfers	(25)	-	**(25)**
At 31 December 2023	**1,505**	**5,338**	**6,843**
Net book value			
At 31 December 2022	**567**	**-**	**567**
At 31 December 2023	**364**	**-**	**364**

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 2023, the review indicated no impairments.

Note 9. Other non-current assets

	Note	31 December 2023	31 December 2022
		(thousands of euros)	
Advances for property, plant and equipment		3,974	5,259
Initial advance in Commissary		809	809
Other non-current assets		1	1
Total, non-current assets		**4,784**	**6,069**

Note 10. Accounts payable

	Note	31 December 2023	31 December 2022
		(thousands of euros)	
Payables from exchange transactions			
Due to Vienna-based organizations	10.1	9,105	9,105
Payables to vendors	10.2	4,772	2,703
Total payables from exchange transactions		**13,877**	**11,808**
Payables from non-exchange transactions			
Due to Member States	10.3	11,640	10,702
Payables to donors	10.4	27,771	16,246
Total payables from non-exchange transactions		**39,411**	**26,948**
Total accounts payable		**53,288**	**38,756**

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 2023			
		Actuarial valuation	UNIDO valuation	Total	31 December 2022
		(thousands of euros)			
Short-term employee benefits	11.2		11,526	11,526	11,938
Post-employment benefits	11.3	162,060		162,060	155,064
Other long-term employee benefits	11.7	5,361		5,361	5,031
Total employee benefit liabilities		**167,421**	**11,526**	**178,947**	**172,033**

	31 December 2023	31 December 2022
	(thousands of euros)	
Composition		
Current	11,526	11,938
Non-current	167,421	160,095
Total employee benefit liabilities	**178,947**	**172,033**

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 2023. 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 2023:

- *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*. 3.37 per cent (2022: 3.75 per cent) for after-service health insurance and 3.11 per cent (2022: 3.82 per cent) for repatriation, annual leave and end-of-service allowance.
- *Medical cost trend rates*. 3.95 per cent for the euro, 3.65 per cent for the United States dollar (2022: 4.15 per cent for euro, 3.85 per cent for United States dollar).
- *Rate of salary increase*. 2.00 per cent (2022: 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*. 2.1 per cent (2022: 2.5 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 insurance benefits obligation	31,795	(24,612)
Effect on combined service and interest cost	2,555	(1,890)

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 insurance benefits obligation	(24,522)	32,350
Effect on combined service and interest cost	(600)	724

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 2022	**145,049**	**8,626**	**5,965**	**7,634**	**167,274**
Service costs	3,935	239	481	386	**5,041**
Interest costs	5,427	302	208	258	**6,195**
Actual gross benefit payments	(3,749)	(1,358)	(833)	(1,082)	**(7,022)**
Actuarial (gains)/losses arising from changes in demographic assumptions	296	(11)	(32)	(4)	**249**
Actuarial (gains)/losses arising from experience adjustments	1,563	875	510	(263)	**2,685**

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*End-of-service allowance*	*Total*
	(thousands of euros)				
Actuarial (gains)/losses arising from changes in financial assumptions	4,964	475	318	445	**6,202**
The effect (gain)/losses of changes in foreign exchange rates	(5,365)	(252)	(189)	-	**(5,806)**
Defined benefit obligation at 31 December 2023	**152,120**	**8,896**	**6,428**	**7,374**	**174,818**

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 2023, UNIDO's contribution payments to the UNJSPF amounted to €12,891 (2022: €12,467). Expected contributions due in 2024 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 2023*	*31 December 2022*
		(thousands of euros)	
Advances from non-exchange transactions			
Performance obligation for voluntary contributions agreements	12.1	61,515	56,259
Voluntary contributions in advance	12.2	26,877	21,253
Assessed contributions in advance		923	2,764
Advances from non-exchange transactions		**89,315**	**80,276**
Advances from exchange transactions			
Advances to BMS from Vienna-based organizations		7,096	7,214
Total advance receipts and deferred income		**96,411**	**87,490**

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 2023	31 December 2022
		(thousands of euros)	
Other current liabilities			
Accruals for goods/services received not invoiced		30,363	27,721
Deferred income – Vienna International Centre performance obligation	13.2	1,816	1,837
Other liabilities	13.1	2,166	3,386
Total other current liabilities		**34,345**	**32,944**
Other non-current liabilities			
Deferred income – Vienna International Centre performance obligation	13.2	23,755	26,127
Long-term guarantees – bank/rent deposit		307	324
Total other non-current liabilities		**24,062**	**26,451**

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:

	31 December 2023	31 December 2022
	(thousands of euros)	
VIC net book value at the beginning of the period	27,963	29,533
Additions to the VIC buildings	764	687
VIC buildings depreciation	(1,816)	(1,837)
Change in cost-sharing ratio	(1,116)	(82)
Change in book value of self-financed leasehold improvements	(224)	(338)
VIC performance obligation at the end of the period	**25,571**	**27,963**

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 2021	**(186,302)**	**7,111**	**7,423**	**529,100**	**(7,599)**	**349,733**
Net surplus/(deficit) for the year (restated)	16,831	(531)	-	31,559	(1,348)	**46,511**
Subtotal	**(169,471)**	**6,580**	**7,423**	**560,659**	**(8,947)**	**396,244**
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	(27)	-	-	-	-	**(27)**

	Regular budget funds					
	General fund	*Regular programme of technical cooperation*	*Working Capital Fund*	*Technical cooperation funds*	*Other funds*	*Total*
			(thousands of euros)			
Change in carrying amount for assessed contributions receivables (restatement)	(1,850)	-	-	-	-	**(1,850)**
Total movements during year	**54,242**	**-**	**-**	**4,437**	**26,838**	**85,517**
Balance as at 31 December 2022 (restated)	**(115,229)**	**6,580**	**7,423**	**565,096**	**17,891**	**481,761**
Net surplus/(deficit) for the year	(9,318)	(653)	-	(14,290)	2,217	**(22,044)**
Subtotal	**(124,547)**	**5,927**	**7,423**	**550,806**	**20,108**	**459,717**
Movements during year						
Credits to Member States	(3,182)	-	-	-	-	**(3,182)**
Transfer (to)/from provision for delayed contribution	-	-	-	-	-	**-**
Actuarial gains/(losses)	(1,657)	-	-	(1,101)	(572)	**(3,330)**
Other adjustments	(79)	-	-	-	-	**(79)**
Total movements during year	**(4,918)**	**-**	**-**	**(1,101)**	**(572)**	**(6,591)**
Balance as at 31 December 2023	**(129,465)**	**5,927**	**7,423**	**549,705**	**19,536**	**453,126**

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 €167,421 (2022: €160,095).

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 2023	Movements during the year	Net surplus/(deficit) for the year	31 December 2023
		(thousands of euros)			
Computer Model for Feasibility Analysis and Reporting fund	14.6	**318**	-	69	**387**
Operational budget	14.7	**4,693**	(19)	5,470	**10,144**
Innovation and Transformation Fund	14.8	**422**	-	39	**461**
Major Capital Investment Fund	14.9	**1,939**	-	(453)	**1,486**
Regular budget supplementary appropriation: Vienna International Centre security	14.10	**575**	-	-	**575**
Sales publication revolving fund	14.11	**283**	-	1	**284**
Buildings Management Services	14.12	**9,661**	(553)	(2,909)	**6,199**
Total		**17,891**	**(572)**	**2,217**	**19,536**

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

14.7 Income from programme support costs, charged in respect of programme expenditure under extrabudgetary technical cooperation activities, is recognized either at the time of the establishment of obligations or at the time of disbursement, whichever happens first, and is credited to the special account for financing the operational budget. The fund balance contains unfunded future liabilities accrued from employee benefits of €20,718 (2022: €19,614).

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. The General Conference, through decision GC.20/Dec.15, took note of the renaming of SAVCCA to the "Innovation and Transformation Fund" (ITF), which will be deployed in line with stipulated Terms of Reference and accountability mechanism (IDB.43/5) during the biennium 2024–2025 and following the requirements laid out by decision IDB.43/Dec.6 (i).

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/ITF 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 (Notes 6.8 and 6.9).

Note 15. Reserves

	Note	1 January 2023	Movement during the year	31 December 2023
		(thousands of euros)		
Project personnel separation reserve	15.1	2,420	283	2,703
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	6,240	621	6,861
Reserve for exchange rate fluctuations	15.6	3,634	(300)	3,334
Total		**21,317**	**604**	**21,921**

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

2023 was €2,040 (2022: €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 €1,294 (2022: €1,594).

Note 16. Revenue

	Note	*31 December 2023*	*31 December 2022 (restated)*
		(thousands of euros)	
Assessed contributions	**16.1**	**70,928**	**70,928**
Voluntary contributions			
For technical cooperation		233,815	227,446
For support to regular activities		369	436
Subtotal, voluntary contributions	**16.2**	**234,184**	**227,882**
Investment revenue	**16.3**	**3,884**	**645**
Revenue producing activities			
Contribution to the Buildings Management Services	16.4	22,407	21,202
Revenue from ad-hoc VIC projects		1,911	1,371
Sales publications		-	5
Computer Model for Feasibility Analysis and Reporting		122	153
Other sales		19	16
Subtotal, revenue producing activities	**16.5**	**24,459**	**22,747**
Miscellaneous income			
Release of performance obligation for the Vienna International Centre	**16.6**	1,816	1,950
Contribution in kind – Vienna International Centre land	**16.7**	295	296
Other miscellaneous income	**16.8**	409	335
Subtotal, miscellaneous income		**2,520**	**2,581**
TOTAL REVENUE		**335,975**	**324,783**

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 2023. 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 release of the performance obligation for the Vienna International Centre buildings corresponds to the fulfilled commitment to maintain the headquarters seat in the premises.

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

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

Contributions in kind for projects and field office operations

16.9 Contributions of services in kind estimated at €2,916 (2022: €3,549) 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 2023	*31 December 2022*
	(thousands of euros)	
Contributions of services in kind for the use of		
Personnel services	1,267	1,102
Office space	942	1,200
Machinery, tools	42	214
Communications and information technology equipment	156	180
Other	509	853
Total	**2,916**	**3,549**

Note 17. Expenses

	Note	*31 December 2023*	*31 December 2022*
		(thousands of euros)	
Staff salaries		57,119	54,461
Staff entitlements and allowances		32,300	34,529
Temporary assistance		980	1,052
Subtotal, staff costs		90,399	90,042
International consultants		26,745	24,826
National experts		21,807	20,945
Administrative support and other consultancies		6,352	5,416
Subtotal, project personnel and consultancies		54,904	51,187
Subtotal, personnel costs and benefits	**17.1**	**145,303**	**141,229**
Regular travel		1,649	822
Project travel		15,238	9,785
Rental, utilities and maintenance		26,870	18,126
Information technology and communications automation		3,810	3,603
Supplies and consumables		2,484	2,608
Other operating costs		6,544	5,007
Subtotal, operating costs	**17.2**	**56,595**	**39,951**
Contractual services	**17.3**	**101,553**	**91,796**
Equipment expensed	**17.4**	**24,713**	**27,124**
Depreciation and amortization	**7,8**	**5,836**	**6,731**
Other expenses	**17.5**	**1,854**	**3,145**
TOTAL EXPENDITURE		**335,854**	**309,976**
Currency translation gains/(losses)	**17.6**	(22,165)	31,704

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 €954 (2022: €944).

17.5. Other expenses include reduction in allowance for doubtful accounts of €438 (2022: increase of €1,887).

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 a decrease in the year-end dollar/euro exchange rate from 0.939 in 2022 to 0.901 in 2023. The unrealized and realized currency translation differences amounted to €22,154 and €11 (2022: €19,743 and €11,962), 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 2023 is presented below:

	Operating	*Investing*	*Total*
	(thousands of euros)		
Surplus of income (statement 5)	10,974	-	**10,974**
Basis differences	5,207	1,827	**7,034**
Presentation differences	(15,728)	-	**(15,728)**
Entity differences	48,921	(5,798)	**43,123**
Actual amount in the statement of cash flow (statement 4)	**49,374**	**(3,971)**	**45,403**

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 98.0 per cent, which is in line with the Organization's strategy to have the highest possible implementation and remain within the available resources. Due to the uncertainty in the timely payment of assessed contributions by Member States as well as high inflation rates, the vacancy factor in 2023 was maintained at a higher level than budgeted. Compared to the first year of the biennium, the regular budget vacancy rate in 2023 decreased to 20.3 per cent for Professional and higher categories (21.8 per cent in 2022) and increased to 15.6 per cent for General Service (5.9 per cent in 2022).

Official travel

18.10 The implementation of the official travel budget at 82.4 per cent represents a significant increase compared to 54.0 per cent in 2022. The increase is mainly the result of the COVID-19 pandemic restrictions being lifted completely in many parts of the world and business patterns coming back to regular levels.

Operating costs

18.11 The increased level of spending under operating costs in 2023 is partially related to the delayed implementation from the previous year where a saving of €3.1 million was achieved. Although the operating costs balance was negative for the year 2023, the overall balance for the biennium 2022–2023 was positive, amounting to €2.0 million.

Information and communications technology

18.12 The underutilization of €0.5 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 2023

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Eliminations*	*Total UNIDO*
			(thousands of euros)		
ASSETS					
Current assets					
Cash and cash equivalents	9,397	420,207	82,521	-	**512,125**
Accounts receivable (non-exchange transactions)	8,793	94,113	(493)	-	**102,413**
Receivables from exchange transactions	117	275	5,050	-	**5,442**
Inventories	-	-	730	-	**730**
Other current assets	9,182	24,946	1,049	(3,676)	**31,501**
Subtotal, current assets	**27,489**	**539,541**	**88,857**	**(3,676)**	**652,211**
Non-current assets					
Receivables	50	157,772	-	-	**157,822**
Property, plant and equipment	29,162	16,459	1,298	-	**46,919**
Intangible assets	182	49	133	-	**364**
Other non-current assets	1,621	3,975	(812)	-	**4,784**
Subtotal, non-current assets	**31,015**	**178,255**	**619**	**-**	**209,889**
TOTAL ASSETS	**58,504**	**717,796**	**89,476**	**(3,676)**	**862,100**

	Regular budget activities	Technical cooperation	Other activities and special services	Eliminations	Total UNIDO
			(thousands of euros)		
LIABILITIES					
Current liabilities					
Accounts payable (exchange transactions)	2,091	2,381	13,081	(3,676)	**13,877**
Employee benefits	10,008	672	846	-	**11,526**
Transfers payable (non-exchange transactions)	11,640	27,761	10	-	**39,411**
Advance receipts	923	88,392	7,096	-	**96,411**
Other current liabilities	4,454	25,250	4,641	-	**34,345**
Subtotal, current liabilities	**29,116**	**144,456**	**25,674**	**(3,676)**	**195,570**
Non-current liabilities					
Employee benefits	120,240	6,006	41,175	-	**167,421**
Other non-current liabilities	23,752	310	-	-	**24,062**
Subtotal, non-current liabilities	**143,992**	**6,316**	**41,175**	**-**	**191,483**
TOTAL LIABILITIES	**173,108**	**150,772**	**66,849**	**(3,676)**	**387,053**
NET ASSETS					
Accumulated surpluses/(deficits): fund balances	(112,723)	570,534	17,359	-	**475,170**
Current period surplus/(deficit)	(9,318)	(14,943)	2,217	-	**(22,044)**
Reserves	7,437	11,433	3,051	-	**21,921**
TOTAL NET ASSETS	**(114,604)**	**567,024**	**22,627**	**-**	**475,047**
TOTAL LIABILITIES AND NET ASSETS	**58,504**	**717,796**	**89,476**	**(3,676)**	**862,100**

B: Statement of financial performance by segment for the year ended 31 December 2023

	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	344	233,785	55	-	**234,184**
Investment revenue	810	661	2,413	-	**3,884**
Revenue producing activities	215	758	47,536	(24,050)	**24,459**
Other	1,403	4,312	5,494	(8,689)	**2,520**
TOTAL REVENUE	**73,700**	**239,516**	**55,498**	**(32,739)**	**335,975**
EXPENDITURE					
Personnel costs and benefits	49,068	67,311	28,924	-	**145,303**
Operational costs	15,595	21,287	23,601	(3,888)	**56,595**
Contractual services	2,292	99,221	40	-	**101,553**
Technical cooperation equipment expensed	151	24,512	50	-	**24,713**
Depreciation and amortization	2,408	2,915	513	-	**5,836**

	Regular budget activities	Technical cooperation	Other activities and special services	Eliminations	Total UNIDO
	(thousands of euros)				
Other expenses	4,405	26,324	(24)	(28,851)	**1,854**
TOTAL EXPENDITURE	**73,919**	**241,570**	**53,104**	**(32,739)**	**335,854**
Currency translation (losses)/gains	(9,099)	(12,889)	(177)	-	**(22,165)**
(DEFICIT)/SURPLUS FOR PERIOD	**(9,318)**	**(14,943)**	**2,217**	**-**	**(22,044)**

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 2023, activities created inter-segment balances in the amount of €4,312, €490, €24,050 and €3,888 (2022: €4,200, €510, €20,689 and €3,792) 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 €2,454 (2022: €2,367). 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 2023	402	-	-	402
31 December 2022	432	7	-	439

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 2023	31 December 2022
	(thousands of euros)	
Regular budget	4,333	2,884
Trust fund	51,969	45,708
Montreal Protocol on Substances that Deplete the Ozone Layer	28,217	40,809
Global Environment Facility	141,207	124,703
Industrial Development Fund	9,584	10,584
Inter-organization arrangements	345	632
Regular programme of technical cooperation	1,565	1,904

	31 December 2023	31 December 2022
	(thousands of euros)	
Special services and other	331	100
Total commitments	**237,551**	**227,324**

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 €1,809 (2022: €2,165).

20.7 Contingent liabilities on pending cases under Appendix D of the Staff Rules for possible retroactive payment amounted to €0 (2022: €0). Contingent liabilities for other claims amounted to €370 (2022: €398).

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

21.1 UNIDO made ex-gratia and special claims payments during the year of €136 (2022: €30).

21.2 The value of property, plant and equipment written off during the year due to loss/theft amounts to €3 (2022: €18).

21.3 During 2023 UNIDO incurred a cash loss of €0 (2022: €0).

Note 22. Related party and other executive management disclosure

Key management personnel

	No. of individuals	Aggregate remuneration	Other compensations	Total remuneration 2023	Outstanding advances against entitlements 31 December 2023
			(thousands of euros)		
Director General	1	439	154	593	-
Deputies to the Director General	3	707	-	707	-
Managing Director	1	240	-	240	-

22.1 The key management personnel are the Director General, the Deputies to the Director General and the Managing Director, 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 2023 (2022: €0).

Note 23. Opening balances adjustments

23.1 Opening balances were restated to include adjustments for initial recognition of the difference between previous carrying amount and the carrying amount at the beginning of the reporting period for assessed contributions receivables in line with IPSAS 41, paragraph 173.

Impact on the statement of financial position	*31 December 2022*	*31 December 2021*
Current Assets		
Accounts receivable (non-exchange transactions)	(1,850)	(1,702)
Accumulated surpluses	(1,850)	(1,702)

23.2 The opening balances of non-current account receivables were restated to reflect the time value of money and discounted using the effective interest rate method (IPSAS41, paragraph 69). The discounting effect as at 31 December 2021 was not calculated due to negative interest rates.

	31 December 2022	*31 December 2021*
Non-current assets		
Accounts receivable (non-exchange transactions)	(8,056)	-
Revenue		
Voluntary contributions	(8,056)	-

23.3 The other non-current liabilities were restated to reflect the current portion of deferred income for Vienna International Centre performance obligation, to be realized during the next year.

	31 December 2022	*31 December 2021*
Current liabilities		
Other current and financial liabilities	1,837	1,923
Non-current liabilities		
Other non-current liabilities	(1,837)	(1,923)

Note 24. Events after reporting date

24.1 The reporting date of UNIDO is 31 December 2023. 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.

ANNEX 2. VIC CATERING SERVICES INDEPENDENT AUDITOR'S REPORT AND ACCOMPANYING FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To Mr. Gerd Müller
Director General of the United Nations Industrial Development Organization

Report on the Audit of the Financial Statements

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the VIC Catering Services as at 31 December 2023, and its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

We have audited the financial statements of the VIC Catering Services for the year ended 31 December 2023. The financial statements comprise:

- Statement of financial position;
- Statement of financial performance;
- Statement of changes in net assets;
- Statement of cash flows; and
- Notes to the financial statements.

Basis for Opinion

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

Independence

We are independent of the VIC Catering Services 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 comprises financial data on VIC Catering operational activities not included in the financial statements.

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 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 the Memorandum of Understanding between the Vienna Based Organizations of 31 March 1977 (the 1997 MoU) United Nations Industrial Development Organization (UNIDO) is responsible for managing and operating the VIC Catering Services. In this regard, UNIDO is assigned to provide to the Joint Advisory Committee annual Financial Statements of the VIC Catering Services, prepared in accordance with IPSAS. According to 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 VIC Catering Services 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 VIC Catering Services or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing VIC Catering Services financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VIC Catering Services 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 VIC Catering Services 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 VIC Catering Services 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 the business activities within the VIC Catering Services to express an opinion on the financial statements.

Report on Other Legal and Regulatory Requirements

In our opinion, the transactions of VIC Catering Services 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, the 1997 MoU and the law.

Acting Chair, **Ms. Galina Izotova**
Accounts Chamber of the Russian Federation
External Auditor
Moscow, Russian Federation
19 April 2024

VIC CATERING SERVICES FINANCIAL STATEMENTS
Statement 1: Statement of financial position
(in euros)

	Note 2	As at 31 December	
		2023	2022
ASSETS			
Current assets			
Cash and cash equivalents		2,437,563	2,313,584
Trade Debtors	(a)	13,787	-
TOTAL ASSETS		**2,451,350**	**2,313,584**
LIABILITIES			
Current liabilities			
Accounts Payable and Miscellaneous creditors	(b)	-	19,473
TOTAL LIABILITIES		**-**	**19,473**
NET ASSETS			
Accumulated surpluses/(deficits) and fund balances		2,294,111	2,149,330
Net Surplus/(Deficit) for the financial period		157,239	144,781
Total net assets		**2,451,350**	**2,294,111**
TOTAL LIABILITIES AND NET ASSETS		**2,451,350**	**2,313,584**

Statement 2: Statement of financial performance
(in euros)

		Year ended 31 December 2023	Year ended 31 December 2022
INCOME			
Operating fee income	(c)	157,266	145,008
Interest Income		221	-
TOTAL INCOME		**157,487**	**145,008**
EXPENDITURE			
General operating expenses			-
Bank Charges		248	227
TOTAL EXPENDITURE		**248**	**227**
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD		**157,239**	**144,781**

Statement 3: Statement of changes in net assets
(in euros)

	WIWAG Fund	EUREST Fund	Total Net Assets
Balance at beginning of the year	**1,404,666**	**889,445**	**2,294,111**
Net surplus/(deficit) for the year	-	157,239	**157,239**
Net assets at the end of the year	**1,404,666**	**1,046,684**	**2,451,350**

Statement 4: Statement of cash flows
(in euros)

	Year ended 31 December 2023	Year ended 31 December 2022
Cash flows from operating activities		
Excess of Income over expenditure	**157,239**	**144,781**
(Increase)/Decrease in accounts receivable	(13 787)	45,694
Increase/(Decrease) in accounts payable	(19,473)	19,473
Interest income	(221)	-
Net cash flows from operating activities	**123,758**	**209,948**
Cash flows from investing activities		
Interest income	221	-
Net cash flows from investing activities	**221**	**-**
Net increase/(decrease) in cash and cash equivalents	**123,979**	**209,948**
Cash and cash equivalents at the beginning of the year	2,313,584	2,103,636
Cash and cash equivalents at end of the financial period	**2,437,563**	**2,313,584**

NOTES TO THE CATERING FINANCIAL STATEMENTS

Note 1. Basis of Preparation

On 31 March 1977 the VBO’s entered into an arrangement, “Memorandum of Understanding concerning the allocation of Common Services at Donaupark Centre in Vienna” – the “MOU”, where the Catering Service at VIC has been established as a self-sustaining, non-profit-making operation to provide catering services at VIC. The responsibility to manage and operate the Catering Services was assigned to UNIDO. Over the years, the MOU has been amended several times.

The Catering Service is a jointly controlled entity governed by “Rules of the Catering Service at the VIC” of 19 January 1989, by the Catering Advisory Committee. It is organized as an integral part of UNIDO Secretariat and has no legal personality.

It is operated by commercially contracted agent.

i. These financial statements comprise a statement of financial position, statement of financial performance, statement of changes in net assets and a statement of cash flows, together with referenced notes and comparative figures.

ii. The accounts of the catering operations are presented in Euros for calendar years and rounded to the nearest Euro.

iii. The accounts are prepared on the historical cost basis of accounting.

iv. Accounts are maintained on an accruals basis in accordance with International Public Sector Accounting Standards (IPSAS). Where IPSAS is silent concerning any specific matter, the appropriate International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) are applied.

v. No accounting entry is made in the financial statements to record the value of administrative, accounting, security services, etc. that are received by the caterer free of charge.

Note 2. Specific

a) The trade debtors

	31 December 2023	31 December 2022
Operating Fee due	13,787	-
Total Trade Debtors	**13,787**	**-**

Trade debtors represents unpaid operating fee due from operator for December 2023.

b) Accounts payables

	31 December 2023	31 December 2022
Erroneous receipt (to be returned)	-	19,473
Total Accounts payable	**-**	**19,473**

c) At the end of 2013, the previous contract with WIWAG was terminated. A contract with new operator, Eurest was signed for a period of 10 years (with an extendable option for additional 3 years). Eurest took over control and management of the Catering operation under a new business model and is required to pay a fixed annual operating fee of EUR 125,000 (subject to annual CPI indexation), regardless of the profits earned or losses incurred through the operations.

d) Catering services running costs incurred to BMS, including utilities, were reimbursed directly by the operator in the amount of EUR 243,215 (2022: 148,299)

The accumulated net assets of EUR 1,404,666 is attributable to the previous contractual arrangement and EUR 1,046,684 (2022: 889,445) under the current contract.

ANNEX 3. MRRF INDEPENDENT AUDITOR'S REPORT AND ACCOMPANYING FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To Mr. Gerd Müller
Director General of the United Nations Industrial Development Organization

Report on the Audit of the Financial Statements

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Common Fund for Major Repairs and Replacements (MRRF) as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

We have audited the financial statements of MRRF for the year ended 31 December 2023. The financial statements comprise:

- Statement of financial position;
- Statement of financial performance;
- Statement of changes in net assets;
- Statement of cash flows; and
- Notes to the financial statements.

Basis for Opinion

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

Independence

We are independent of MRRF 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 comprises financial data on MRRF operational activities including budgetary matters not presented in the financial statements.

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 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 and based on the Memorandum of Understanding between the Vienna Based Organizations of 31 March 1977 (the 1997 MoU) as well as the Agreement between the Republic of Austria, the United Nations, the International Atomic Energy Agency, the United Nations Industrial Development Organization and the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization regarding the Establishment and Administration of a Common Fund for Financing Major Repairs and Replacements at their Headquarters or Seats at the Vienna International Centre UNIDO is responsible for providing to the Building

Management Advisory Committee annual Financial Statements of MRRF, prepared in accordance with IPSAS. According to 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 MRRF 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 MRRF or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing MRRF financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

Report on Other Legal and Regulatory Requirements

In our opinion, the transactions of MRRF 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, the 1997 MoU and the law.

Acting Chair, **Ms. Galina Izotova**
Accounts Chamber of the Russian Federation
External Auditor

Moscow, Russian Federation
19 April 2024

COMMON FUND FOR MAJOR REPAIRS AND REPLACEMENTS (MRRF) FINANCIAL STATEMENTS

Statement 1: Statement of financial position

(expressed in 000'euros)

	Note 2	As at 31 December 2023	As at 31 December 2022
ASSETS			
Current assets			
Cash and cash equivalents	(a)	12,193	12,221
Accounts receivable	(b)	708	1,501
TOTAL ASSETS		**12,901**	**13,722**
LIABILITIES			
Current liabilities			
Accounts Payable and Accruals	(c)	1,269	1,972
TOTAL LIABILITIES		**1,269**	**1,972**
NET ASSETS/EQUITY			
Accumulated surpluses/(deficits) and fund balances		11,750	11,882
Net Surplus/(Deficit) for the financial period		(118)	(132)
Total net assets/equity		**11,632**	**11,750**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**12,901**	**13,722**

Statement 2: Statement of financial performance

(expressed in 000'euros)

	Note 2	Year ended 31 December 2023	Year ended 31 December 2022
INCOME			
Contributions	(d)	5,538	5,335
Investment Income		12	-
TOTAL INCOME		**5,550**	**5,335**
EXPENDITURE			
Contractual services	(e)	5,668	5,467
TOTAL EXPENDITURE		**5,668**	**5,467**
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD		**(118)**	**(132)**

Statement 3: Statement of changes in net assets
(expressed in 000'euros)

	Note 2	As at 31 December	
		2023	**2022**
Balance at beginning of the year		**11,750**	**11,882**
Net surplus/(deficit) for the year		(118)	(132)
Net assets/equity at the end of the year		**11,632**	**11,750**

Statement 4: Statement of cash flows
(expressed in 000'euros)

	Note 2	**Year ended 31 December 2023**	**Year ended 31 December 2022**
Cash flows from operating activities			
Surplus/(Deficit) for the period		**(118)**	**(132)**
(Increase)/decrease in receivables	(b)	781	(805)
Increase/(decrease) in accounts payables		(703)	(895)
Net cash flows from operating activities		**(40)**	**(1,832)**
Cash flows from investing activities			
Cash flows from investment interest		12	-
Net cash flows from investing activities		**12**	**-**
Net increase/(decrease) in cash and cash equivalents		**(28)**	**(1,832)**
Cash and cash equivalents at the beginning of the year		12,221	14,053
Cash and cash equivalents at end of the financial period	(a)	**12,193**	**12,221**

NOTES TO THE FINANCIAL STATEMENTS OF THE COMMON FUND FOR MAJOR REPAIRS AND REPLACEMENTS (MRRF)

Note 1. General

(i) On 1 January 1981, an agreement between the Republic of Austria, the United Nations, and IAEA went into effect to establish a common fund for the purpose of financing the cost of major repairs and replacement of buildings, facilities and technical installations, which are the property of the Republic of Austria and form part of the Headquarters areas of the United Nations and IAEA at the Vienna International Centre (VIC). This agreement also applies to UNIDO since 1986, when it became a specialized agency. The Fund is administered by UNIDO through a joint committee. Annual financial statements are prepared by UNIDO and audited by UNIDO's External Auditor. The liability of each of the three VIC-based organizations, which was under the agreement limited to $150,000 per year, i.e. $25,000 as an annual contribution and up to $125,000 as reimbursement of approved expenditures incurred in the previous year, was increased to $325,000 as of 1 January 1996. The Republic of Austria was liable to pay the balance exceeding the combined limit of $900,000 established for three United Nations organizations. In 1999, an agreement was reached between the VIC-based organization and the CTBTO to share the annual contribution as well as the annual expenditure equally among the four of them, i.e. $18,750 as an annual contribution and up to $225,000 as reimbursement of approved expenditure incurred in the previous year.

In 2002, an agreement was reached between the VIC-based organizations and the Republic of Austria, under which reimbursement of the disbursements made during the year 2001 ($988,626) was not required. Under this agreement, there will only be annual assessed contributions to the fund shared equally between the Republic of Austria and VIC-based organizations. Under the new agreement, for 2002 and 2003, the VIC-based organizations' contributions were shared equally between the four organizations, but thereafter, it was shared in accordance with their Buildings Management Services cost-sharing ratio. Furthermore, unexpected major repairs and replacements, which are not included in the agreed investment plan, will have to be shared by all parties. In the past, such costs were fully absorbed by the Austrian Government.

(ii) The financial statements comprise a statement of financial performance for the year, a statement of financial position as at the end of the year, a statement of net assets and a statement of cash flows for the year, together with referenced notes.

(iii) The accounts of the MRRF are presented in thousands of euros and rounded to the nearest thousand euros, unless stated otherwise.

(iv) The accounts are prepared on the historical cost basis of accounting.

(v) Accounts are maintained on accruals basis in accordance with International Public Sector Accounting Standards (IPSAS), using management's best estimates and judgments, where appropriate. The financial statements are inspired by IPSAS, but it's scope is limited to the necessary statements and disclosures, as agreed by sole stakeholders and for the internal use of the Republic of Austria and VIC-based organizations. Prudence, substance over form and materiality govern the selection and application of accounting policies. Further, accounting policies, basis of preparation and other relevant information, are in consistence with consolidated financial statements of UNIDO.

(vi) Contributions income is recognized at the beginning of the year to which it relates. The revenue amount is determined based on budget and billed according to the applicable cost sharing ratios.

(vii) Contractual services arising from the purchase of goods or 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.

Note 2. Specific

(a) Cash and cash equivalents are held at amortized cost and include cash held on current bank account.

	31 December 2023	31 December 2022
Cash and cash equivalents		
Cash at bank	12,193	12,221
Total cash and cash equivalents	**12,193**	**12,221**

(b) Account receivable

	31 December 2023	31 December 2022
VAT recoverable	109	276
Inter-fund asset	599	1,225
Total accounts receivable	**708**	**1,501**

Accounts receivables are recognized initially at amortized cost. Allowances for estimated irrecoverable amounts are recognized for receivables when there is objective evidence that the asset is impaired, whereby the impairment losses are recognized in the statement of financial performance.

The Inter-fund asset represents balance of cash held by General fund on behalf of MRRF, as a result of consolidated VAT claim administration, not settled yet and receivable from inter-fund clearing.

	31 December 2023	31 December 2022
Accounts payable	56	-
Accruals for goods/services confirmed	2	37
Accruals for goods/services un-confirmed	1,211	1,887
Remitted payments	-	48
Total Accounts Payable	**1,269**	**1,972**

(c) Accounts Payable

The accounts payable represents open invoices and accruals to vendors who are supplying materials and contractual services to the major repairs and replacements of the VIC premises. Accounts payable are recognized initially at nominal value, that best estimates the amount required to settle the obligation at the reporting date.

Accruals for goods/services un-confirmed, represents goods/services received, but not yet confirmed in ERP system, as those have not yet been fully inspected, verified and/or certified for final use and represents capitalization in progress under the VIC Buildings assets.

(d) Income from Contributions

	2023	2022
Federal Republic of Austria	2,769	2,667
IAEA	1,490	1,437
UNOV	655	619
UNIDO	387	387
CTBTO	237	225
Total Income from Contributions	**5,538**	**5,335**

Increase in Income from Contributions to €5,538 as per recommendation of the MRRF Joint Committee. The 50% share of the total contribution is billed to the VBO's, based on the applicable BMS cost sharing ratios:

	IAEA	UNIDO	UNOV	CTBTO	Total
2023	53.822%	13.956%	23.661%	8.561%	100.000%
2022	53.893%	14.490%	23.198%	8.419%	100.000%

(e) Expenses include contractual services and materials used for the major repairs and replacements of the VIC premises.

Because of the nature of the activities undertaken by the Fund, expenses amounting €6,186 (2022: €6,237) were capitalized as an increase in value of the VIC building components. Major additions during 2023 are detailed below:

#	Description	Asset ID	Loc	Class	EUL years	Acquired On	Amount EUR'000
1	Concrete cover plates maintenance Plaza	246683	VPZ	BLD50	50	31/08/2021	274
2	Refurbishments of the plaza surface	109570	VBF	BLD16	35	12/12/2017	101
3	Additional MR824000 2019 Project 45- concrete stru	306922	VPC	BLD16	35	15/11/2023	75
4	Replacement of outdated control units	302633	VBD	BLD35	35	05/01/2023	74
5	radiators and related material	159156	VBC	BLD36	35	26/07/2019	107
6	MR19-MR805000 Project No 14 Pipes	270196	VBF	BLD38	35	13/06/2022	137
7	MR19-MR805000 Project No 14	270211	VBA	BLD38	35	02/09/2022	67
8	Replacement of UPS MR22 Proj 24	302648	VBM	BLD30	30	20/06/2023	94
9	MR18 MR814000 Project 26	306923	VBE	BLD30	30	09/11/2023	177
10	Electrical installation	145330	VBE	BLD31	30	19/02/2019	90
11	Electrical installation	145330	VBE	BLD31	30	19/02/2019	128
12	Electrical projects	249264	VBA	BLD31	30	14/10/2021	158
13	Electrical projects	249265	VBB	BLD31	30	14/10/2021	158
14	Replacement of outdated lightingprj28/29	302639	VBA	BLD31	30	23/02/2023	97
15	Replacement of outdated lightingprj28/29	302639	VBA	BLD31	30	23/02/2023	65
16	Replacement of outdated lightingprj28/29	302639	VBA	BLD31	30	23/02/2023	86
17	Replacement of outdated lightingprj28/29	302639	VBA	BLD31	30	23/02/2023	89
18	Replacement of outdated lightingprj28/29	302640	VBB	BLD31	30	23/02/2023	97
19	Replacement of outdated lightingprj28/29	302640	VBB	BLD31	30	23/02/2023	65
20	Replacement of outdated lightingprj28/29	302640	VBB	BLD31	30	23/02/2023	86
21	Replacement of outdated lightingprj28/29	302640	VBB	BLD31	30	23/02/2023	89
22	Renewal of 6 AC units	217730	VBF	BLD20	20	01/07/2020	62
23	Defect Cooling sys MR824000 2018 Proj 48	302643	VBG	BLD21	20	20/03/2023	115

#	Description	Asset ID	Loc	Class	EUL years	Acquired On	Amount EUR'000
24	MR-807000/2015/Project 18 elevator cabin	270189	VBA	BLD23	20	14/01/2022	570
25	MR-807000/2015/Project 18 elevator cabin	270189	VBA	BLD23	20	14/01/2022	464
	Other items						2,661
	TOTAL Additions to the VIC Buildings						**6,186**

Amount of additions to the VIC building components also includes expenses for activities under construction, reflected as accruals for goods/services of €1,213 (2022: €1,924).

(f) Commitments and contingencies

The Organizations' commitments include purchase orders and service contracts, contracted but not delivered as at year-end of €5,648 (2022: €7,740).

(g) The level of uncommitted fund balance

	31 December 2023	31 December 2022
Total Net Assets/Equity (Stmt1)	**11,632**	**11,750**
Add: Accruals un-confirmed (Note 2.c)	1,211	1,887
	12,843	**13,637**
less:		
Commitments from Purchase Orders	(5,648)	(7,740)
Commitments from Purchase Requisitions	(1,117)	(944)
Total Uncommitted Fund Balance	**6,078**	**4,953**

ANNEX 4. GEF, LDCF, SCCF INDEPENDENT AUDITOR'S REPORTS AND ACCOMPANYING STATEMENTS OF ACCOUNTS

Global Environment Facility Trust Fund (GEF)

INDEPENDENT AUDITOR'S REPORT

To Mr. Gerd Müller
Director General of the United Nations Industrial Development Organization

To the International Bank for Reconstruction and Development,
As Trustee of Global Environment Facility Trust Fund

Opinion

We have audited the Statement of account of the United Nations Industrial Development Organization's (UNIDO) Global Environment Facility Trust Fund (GEF) as at 31 December 2023.

In our opinion, the accompanying Statement of account presents fairly, in all material respects the financial position of the United Nations Industrial Development Organization's (UNIDO) Global Environment Facility Trust Fund (GEF) as at 31 December 2023, and its financial performance for the year then ended, in accordance with the Financial Regulations and Rules of the United Nations Industrial Development Organization.

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 Statement of account" 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 the UNIDO's GEF 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 Statement of account. We have fulfilled our ethical responsibilities in accordance with these requirements.

Emphasis of Matter – Basis of accounting and Restriction on Distribution and Use

The basis of accounting is outlined in the Statement of account, which is prepared to assist the UNIDO's GEF in complying with the financial reporting provisions of the Financial Procedures Agreement (FPA). As a result, the Statement of account may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information which includes reports indicated in the FPA except the Statement of account and our auditor's report thereon. Our opinion on the Statement of account does not cover the other information and we do not express any form of an assurance conclusion thereon.

Responsibilities of Management and Those Charged with Governance for the Statement of account

Management is responsible for the preparation of the Statement of account in accordance with Section 12.2 of FPA between UNIDO and International Bank for Reconstruction and Development (IBRD) and for such internal control as management determines is necessary to enable the preparation of the Statement of account that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Statement of account

Our objectives are to obtain reasonable assurance about whether the Statement of account as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Statement of account.

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

- Identify and assess the risks of material misstatement of the Statement of account, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UNIDO's GEF internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates applied.
- 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 the audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the UNIDO's GEF to express an opinion on the Statement of account.

Report on Other Legal and Regulatory Requirements

In our opinion, the transactions of the UNIDO's GEF 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 FPA and the law.

Acting Chair, **Ms. Galina Izotova**
Accounts Chamber of the Russian Federation
External Auditor

Moscow, Russian Federation
19 April 2024

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
GLOBAL ENVIRONMENT FACILITY
STATEMENT OF ACCOUNT AS AT 31 December 2023
(In US Dollars)

DONOR:	Global Environment Facility	
A.	**INCOME:**	
	Prior Year Receipts	596,213,396.80
	Funds Received Current Year	54,035,808.86
	Total Income	**650,249,205.66**
B.	**Project Expenditure:**	
	Prior years expenditure	598,865,182.31
	Prior years support cost	59,283,176.08
	Current year expenditure	53,591,755.36
	Current year support cost	4,769,097.26
	Total Expenditure	**716,509,211.01**
C.	**Fund Balance (A-B)**	**(66,260,005.35)**
D.	**Interest Income**	
	Interest prior year	327,809.49
	Interest refunded in current year	(327,809.49)
	Interest current year	1,088,975.31
	Total Interest Income	**1,088,975.31**

This is to confirm that financial records made within the scope of the contributions by the Global Environment Facility, are effected in accordance with the Financial Regulations and Rules of UNIDO and the financial performance and position of the Fund are incorporated in UNIDO's financial statements, which are prepared in conformity with the International Public Sector Accounting Standards (IPSAS).

The Organization maintains systems of internal accounting controls, policies and procedures to manage risks and ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the External Auditor during their respective audits.

Least Developed Countries Fund for Climate Change (LDCF)

INDEPENDENT AUDITOR'S REPORT

To Mr. Gerd Müller
Director General of the United Nations Industrial Development Organization

To the International Bank for Reconstruction and Development,
As Trustee of Least Developed Countries Fund for Climate Change

Opinion

We have audited the Statement of account of the United Nations Industrial Development Organization's (UNIDO) Least Developed Countries Fund for Climate Change (LDCF) as at 31 December 2023.

In our opinion, the accompanying Statement of account presents fairly, in all material respects the financial position of the United Nations Industrial Development Organization's (UNIDO) the Least Developed Countries Fund for Climate Change (LDCF) as at 31 December 2023, and its financial performance for the year then ended, in accordance with the Financial Regulations and Rules of the United Nations Industrial Development Organization.

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 Statement of account" 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 the UNIDO's LDCF 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 Statement of account. We have fulfilled our ethical responsibilities in accordance with these requirements.

Emphasis of Matter – Basis of accounting and Restriction on Distribution and Use

The basis of accounting is outlined in the Statement of account, which is prepared to assist the UNIDO's LDCF in complying with the financial reporting provisions of the Financial Procedures Agreement (FPA). As a result, the Statement of account may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information which includes reports indicated in the FPA except the Statement of account and our auditor's report thereon. Our opinion on the Statement of account does not cover the other information and we do not express any form of an assurance conclusion thereon.

Responsibilities of Management and Those Charged with Governance for the Statement of account

Management is responsible for the preparation of the Statement of account in accordance with Section 11.2 of FPA between UNIDO and International Bank for Reconstruction and Development (IBRD) and for such internal control as management determines is necessary to enable the preparation of the Statement of account that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Statement of account

Our objectives are to obtain reasonable assurance about whether the Statement of account as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Statement of account.

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

- Identify and assess the risks of material misstatement of the Statement of account, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UNIDO’s LDCF internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates applied.
- 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 the audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the UNIDO’s LDCF to express an opinion on the statement of account.

Report on Other Legal and Regulatory Requirements

In our opinion, the transactions of the UNIDO’s LDCF 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 FPA and the law.

Acting Chair **Ms. Galina Izotova**
Accounts Chamber of the Russian Federation
External Auditor

Moscow, Russian Federation
19 April 2024

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
GLOBAL ENVIRONMENT FACILITY
STATEMENT OF ACCOUNT AS AT 31 December 2023
(In US Dollars)

DONOR: The Least Developed Countries Fund For Climate Change

A.	**INCOME:**	
	Prior Years Receipts	5,887,215.05
	Funds Received Current Year	1,770,099.41
	Total Income	**7,657,314.46**
B.	**Project Expenditure:**	
	Prior years expenditure	3,466,710.93
	Prior years support costs	315,156.58
	Current year expenditure	1,733,506.09
	Current year support cost	159,959.82
	Total Expenditure	**5,675,333.42**
C.	**Fund Balance (A-B)**	**1,981,981.04**
D.	**Interest Income**	
	Interest prior year	29,956.97
	Interest refunded in current year	(29,956.97)
	Interest current year	107,716.54
	Total Interest Income	107,716.54

This is to confirm that financial records made within the scope of the contributions by the Global Environment Facility, are effected in accordance with the Financial Regulations and Rules of UNIDO and the financial performance and position of the Fund are incorporated in UNIDO's financial statements, which are prepared in conformity with the International Public Sector Accounting Standards (IPSAS).

The Organization maintains systems of internal accounting controls, policies and procedures to manage risks and ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the External Auditor during their respective audits.

Special Climate Change Fund (SCCF)

INDEPENDENT AUDITOR'S REPORT

To Mr. Gerd Müller
Director General of the United Nations Industrial Development Organization

To the International Bank for Reconstruction and Development,
As Trustee of Special Climate Change Fund

Opinion

We have audited the Statement of account of the United Nations Industrial Development Organization's (UNIDO) Special Climate Change Fund (SCCF) as at 31 December 2023.

In our opinion, the accompanying Statement of account presents fairly, in all material respects the financial position of the United Nations Industrial Development Organization's (UNIDO) Special Climate Change Fund (SCCF) as at 31 December 2023, and its financial performance for the year then ended, in accordance with the Financial Regulations and Rules of the United Nations Industrial Development Organization.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described below in the "Auditor's Responsibilities for the Audit of the Statement of account" section of our report. 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 the UNIDO's SCCF 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 Statement of account. We have fulfilled our ethical responsibilities in accordance with these requirements.

Emphasis of Matter – Basis of accounting and Restriction on Distribution and Use

The basis of accounting is outlined in the Statement of account, which is prepared to assist the UNIDO's SCCF in complying with the financial reporting provisions of the Financial Procedures Agreement (FPA). As a result, the Statement of account may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information which includes reports indicated in the FPA except the Statement of account and our auditor's report thereon. Our opinion on the Statement of account does not cover the other information and we do not express any form of an assurance conclusion thereon.

Responsibilities of Management and Those Charged with Governance for the Statement of account

Management is responsible for the preparation of the Statement of account in accordance with Section 11.2 of FPA between UNIDO and International Bank for Reconstruction and Development (IBRD) and for such internal control as management determines is necessary to enable the preparation of the Statement of account that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Statement of account

Our objectives are to obtain reasonable assurance about whether the Statement of account as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Statement of account.

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

- Identify and assess the risks of material misstatement of the Statement of account, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UNIDO's SCCF internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates applied.
- 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 the audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the UNIDO's SCCF to express an opinion on the Statement of account.

Report on Other Legal and Regulatory Requirements

In our opinion, the transactions of the UNIDO's SCCF 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 FPA and the law.

Acting Chair **Ms. Galina Izotova**
Accounts Chamber of the Russian Federation
External Auditor

Moscow, Russian Federation
19 April 2024

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
GLOBAL ENVIRONMENT FACILITY
STATEMENT OF ACCOUNT AS AT 31 December 2023

DONOR: The Special Climate Change Fund (400999)

A.	**INCOME:**	
	Prior Years Receipts	3,917,214.47
	Funds Received Current Year	253,952.38
	Total Income	**4,171,166.85**
B.	**Project Expenditure:**	
	Prior years expenditure	3,285,977.31
	Prior years support costs	311,922.08
	Current year expenditure	2,007,259.57
	Current year support cost	190,697.06
	Total Expenditure	**5,795,856.02**
C.	**Fund Balance (A-B)**	**(1,624,689.17)**
D.	**Interest Income**	
	Interest prior year	9,701.85
	Interest refunded in current year	(9,701.85)
	Interest current year	16,163.45
	Total Interest Income	**16,163.45**

This is to confirm that financial records made within the scope of the contributions by the Global Environment Facility, are effected in accordance with the Financial Regulations and Rules of UNIDO and the financial performance and position of the Fund are incorporated in UNIDO's financial statements, which are prepared in conformity with the International Public Sector Accounting Standards (IPSAS).

The Organization maintains systems of internal accounting controls, policies and procedures to manage risks and ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the External Auditor during their respective audits.