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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1996-1997

Report of the External Auditor on the accounts of the United Nations Industrial
Development Organization and of the Industrial Development Fund for the
financial period 1996-1997 ended 31 December 1997*

CONTENTS

	<i>Paragraphs</i>	<i>Page</i>
LETTER OF TRANSMITTAL		6
Chapter		
I. GENERAL	1-6	6
II. SUMMARY OF FINDINGS AND CONCLUSIONS	7-35	7
III. BUDGETARY, ACCOUNTING AND FINANCIAL REPORTING PROCEDURES	36-60	8
A. Regular budget assessed contributions income	36-39	8
B. Regular budget implementation	40-43	10
C. Regular budget unliquidated obligations	44-46	10

*The present document has not been edited.

CONTENTS (*continued*)

	<i>Paragraphs</i>	<i>Page</i>
D. Unliquidated obligations—UNDP Operating Fund	47-52	10
E. Bank reconciliations	53	12
F. Recording contributions-in-kind	54-60	12
IV. CASH MANAGEMENT	61-87	13
A. Cash in banks	61-62	13
B. Liquidity position	63-87	13
(i) Provision for delays in the collection of contributions	69-71	13
(ii) Financial implications of the 1998 staff reduction	72-73	15
(iii) Development in 1998	74	15
(iv) Working Capital Fund	75-76	15
(v) Cash flow forecast	77-78	15
(vi) Action taken by Management	79-81	16
(vii) Contribution income and expenditure	82-87	16
V. CONTRACTS AND PURCHASES	88-89	16
A. <i>Post facto</i> requisition	88-89	16
VI. PUBLICATIONS	90-100	16
A. Publication strategy and Publications Board	91-92	16
B. Publications	93-97	17
C. Conclusions	98-100	18
VII. COMMON SERVICES	101-124	18
A. Buildings Management Service	102-108	18
B. IAEA sharing of termination indemnity costs for Buildings Management staff ..	109-111	19
C. Catering Service	112-114	19
D. Removal within the VIC	115-117	20
E. Charges of utility costs to the VIC Commissary	118-121	20
F. Common Printing Services	122-124	21
VIII. TECHNICAL COOPERATION ACTIVITIES	125-148	21
A. Project expenditure and regular budget expenditure	125-126	21
B. UNIDO's field representation	127-133	21
C. Administration and management of UCD offices	134-142	22
(i) Communication, Headquarters—UCD offices	134-139	22
(ii) UCD work plan and staff performance evaluation system (SPES)	140-142	23
D. Improvement of quality management	143-148	23
IX. INFORMATION TECHNOLOGY	149-157	23
A. Backlog of EDP application maintenance	149-157	23

CONTENTS (*continued*)

	<i>Paragraphs</i>	<i>Page</i>
X. ORGANIZATIONAL MATTERS	158-184	24
A. UNIDO's Geneva Office	158-177	24
(i) Justification for the Liaison Office	159-160	24
(ii) Supervisory function of External Relations Services	161-165	24
(iii) Cooperation with UN organizations	166-168	25
(iv) Summary and conclusions	169-177	25
B. Committees in UNIDO	178-184	25
XI. PERSONNEL MATTERS	185-198	26
A. Financial information on the staff costs of substantive divisions of UNIDO	185-187	26
B. The 1996 staff reduction exercise	188-190	26
C. Women in the Secretariat	191-198	27
XII. OTHER MATTERS	199-201	28
A. Amounts written off, cases of fraud or presumptive fraud, and <i>ex gratia</i> payments	199-201	28
B. Acknowledgement		28

CONTENTS (*continued*)

List of tables

	<i>Page</i>
1. UNIDO—REGULAR BUDGET Status of contributions unpaid (including new Member States), 1986-1997	9
2. UNIDO—REGULAR BUDGET Status of assessed contributions unpaid, 1986-1997 (in per cent of total assessments for year or biennium)	9
3. UNIDO—REGULAR BUDGET Unutilized balances of appropriations and biennial excesses of income over expenditure, 1986-1997	11
4. UNIDO—REGULAR BUDGET Status of unliquidated obligations and savings on the liquidation of obligations, 1986-1997	11
5. UNIDO—UNDP OPERATING FUND Status of expenditures, 1989-1997	11
6. UNIDO—REGULAR BUDGET Liquidity position	14
7. GENERAL FUND AND WORKING CAPITAL FUND Cash flow, 1996-1998	15
8. UNIDO—REGULAR BUDGET Cost sharing of Buildings Management Service in the VIC	19
9. TECHNICAL COOPERATION ACTIVITIES EXECUTED BY UNIDO Status of expenditure, 1986-1997	21
10. UNIDO Comparison of staff costs of substantive departments with project expenditure and total staff costs, 1986 to 1997	27
11. UNIDO Staff reduction programme, 1996	27

CONTENTS (*continued*)

Annexes

	<i>Page</i>
I. CERTIFICATE OF THE EXTERNAL AUDITOR ON THE ACCOUNTS OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION AND OF THE INDUSTRIAL DEVELOPMENT FUND FOR THE FINANCIAL PERIOD 1996-1997 ENDED 31 DECEMBER 1997	29
II. FINANCIAL STATEMENTS FOR THE 24-MONTH PERIOD OF THE BIENNIUM 1996-1997 ENDED 31 DECEMBER 1997	30
Statement I Statement of income and expenditure and changes in reserves and fund balances for the biennium ending 31 December 1997	31
Statement II Statement of assets, liabilities, and reserves and fund balances as at 31 December 1997	32
Schedule 2.1 Status of assessed contributions to the regular budget as at 31 December 1997 ..	33
Schedule 2.2 Status of advances to the Working Capital Fund as at 31 December 1997	42
Schedule 2.3 UNIDF/IDF statement of pledges and receipts as at 31 December 1997	49
Statement III General Fund and Working Capital Fund: Statement of cash flow for the biennium 1996—1997 as at 31 December 1997	55
Statement IV General Fund: Status of appropriations by major programme for the biennium 1996-1997 as at 31 December 1997	56
Schedule 4.1 General Fund: Status of appropriations by major object of expenditure for the biennium 1996-1997 as at 31 December 1997	57
III. NOTES TO THE FINANCIAL STATEMENTS	
PREFACE: UNIDO MISSION STATEMENT	58
Annex i Self-liquidating Commercial Activities: VIC Catering Services	69
Annex ii Technical cooperation activities executed by UNIDO:	70
Table 1: Combined statement of income and expenditure and changes in reserves and fund balances for the biennium 1996-1997	70
Table 2: Combined statement of assets, liabilities, and reserves and fund balances as at 31 December 1997	71
Table 3: Summary of transactions on sub-accounts of the Industrial Development Fund for the biennium 1996-1997 as at 31 December 1997	72
Table 4: Summary of technical cooperation activities financed by trust funds for the biennium 1996-1997	73
Table 5: Summary of technical cooperation activities for the biennium 1996-1997 financed under inter-organization agreements	76
IV. OPERATING FUNDS	
UNDP AND UNDP TRUST FUNDS	77

LETTER OF TRANSMITTAL

Sir,

I have the honour to present to the Industrial Development Board through the Programme and Budget Committee my report and audit opinion on the financial statements of the United Nations Industrial Development Organization for the financial period 1996-1997 ended 31 December 1997, which incorporate the financial statements of the Industrial Development Fund for the same biennial period.

For information purposes, I enclose also copies of my audit opinion on the statements showing, as at 31 December 1997, the status of funds advanced by the United Nations Development Programme and the United Nations Population Fund to the United Nations Industrial Development Organization.

Accept Sir, the assurances of my highest consideration.

[Signed]

Dr. H. von Wedel
President of the Federal Court of Audit
Germany
External Auditor

Enclosures

The President of the
Industrial Development Board
through the Chairperson of the
Programme and Budget Committee
UNIDO
A-1400 Vienna, Austria
Österreich

I. GENERAL

1. I have audited the accounts of the United Nations Industrial Development Organization (UNIDO) for the financial period 1 January 1996 to 31 December 1997 in accordance with Article XI of the Financial Regulations of the Organization and the "Additional terms of reference governing the audit of the UNIDO" appended thereto.

2. Since the financial statements of the Industrial Development Fund (IDF) for the period 1 January 1996 to 31 December 1997 have been incorporated into the

UNIDO financial statements for the fiscal period ended 31 December 1997, the results of the internal audit examination of the IDF accounts for the financial period under review have been taken into account in the present report.

3. The audit was carried out by staff of the German Federal Court of Audit at UNIDO Headquarters in Vienna and at the UCD offices in Hanoi, Viet Nam, and Buenos Aires, Argentina. The examinations were performed in accordance with generally accepted auditing standards, in conformance with international standards, and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. Those standards are designed primarily for the purpose of forming an opinion on UNIDO's consolidated financial statements. Consequently, my work did not involve a detailed review of all aspects of UNIDO's budgetary and financial information system and the results cannot be regarded as a comprehensive statement on them. In addition to my audit of the accounts and financial transactions, I carried out reviews under financial regulation 11.4. These reviews primarily concern the economy, efficiency and effectiveness of the financial procedures and internal financial controls and, in general, the administration and management of the Organization.

4. The scope of my audit of the UNIDO accounts and activities during the fiscal period 1996-1997 included the following areas: budgetary, accounting and financial reporting procedures, cash management, contracts and purchases, technical cooperation activities, project management cycle, electronic data processing systems, personnel matters including the organizational structure of UNIDO, and the 1996 staff reduction exercise.

5. In line with established audit practice and procedures the findings and conclusions contained in this report have been discussed by the audit team with senior officials of the Organization. Their comments and observations have been incorporated into the report where possible and appropriate.

6. On the basis of the contents of the relevant parts of the present report, I shall report separately to the governing bodies of the United Nations Development Programme (UNDP) on the results of my audit of the accounts and activities of UNIDO as an executing agency of the UNDP during the financial period 1996-1997. My audit opinion on the statements showing the status of funds advanced to UNIDO by UNDP and UNFPA as at 31 December 1997, however, has already been forwarded, as requested, to the latter Organizations.

II. SUMMARY OF FINDINGS AND CONCLUSIONS

7. The outstanding balance of regular budget assessed contributions for the biennium 1996-1997 amounts to US\$ 47,090,945.

8. The excess of the balance of appropriations over expenditure plus excess of total income over approved estimates in the amount of US\$ 39,373,500 at the end of the biennium 1996-1997 represented 16.6 per cent of the appropriations. Comparing this amount with prior fiscal periods one has to take into account that a considerable amount of assessed contributions was outstanding.

9. The unliquidated obligations of the General Fund and the Working Capital Fund carried forward to the biennium 1998-1999 totalled US\$ 11,685,00 0.

10. The amount of unliquidated obligations in the UNDP Operating Fund is still significantly high.

11. As at 31 December 1997 the reconciliation of the balances of UNIDO's bank accounts with those of the relevant bank statements was up-to-date.

12. The Director-General agreed that UNIDO may accept contributions-in-kind without support costs if this is required in order to obtain the contribution. This decision being a departure from long standing principles of the UN could negatively affect the Regular budget and should be reconsidered. The amount of contributions-in-kind is now disclosed in the notes to the financial statements.

13. The cash and term deposits balance of US\$ 13.5 million should not lead to the impression that the financial situation of UNIDO has been satisfactory. A lot of necessary expenditures have been postponed and there is also a high amount of short-term liabilities which exceeds the cash balance.

14. Total liquid cash at the end of the 1996-1997 biennium amounted to a negative figure of about US\$ 11.8 million. UNIDO is therefore again depending fully on the timely payment of contributions by the Member States.

15. As there are not enough voluntary contributions an amount of about US\$ 11 million of prior years outstanding contributions which is expected to be collected in 1998 will fully be needed for the voluntary part of the staff separation programme.

16. Assuming full implementation of the regular budget the cash flow forecast for 1998 ends with a negative cash balance of about US\$ 3.1 million.

17. Several orders for supplies were placed or contractual arrangements were made without adhering to the established procedures.

18. UNIDO does not have a publication strategy or a comprehensive marketing concept. There is no unit which is responsible for the development and implementation of a publication strategy. The Organization does not have the data for cost-accounting. UNIDO should identify the full costs of publications and bring them to the knowledge of the Member States.

19. In the programme and budget proposal for 1998-1999 UNIDO proposes that the responsibility for the provision of Buildings Management Service (BMS) should be transferred to another agency. It cannot be expected that this would lead to any savings, as the amount of net expenditures for UNIDO would not be reduced.

20. In the course of the 1996 staff reduction exercise 25 posts relating to BMS were abolished. Nineteen persons received termination benefits, amounting to AS 4,829,133.50. In accordance with the agreement reached on VIC operating costs UNIDO claimed 45.5 per cent of this amount (US\$ 644,450) from IAEA. However, IAEA did not see any legal grounds that would justify such payments.

21. The amount of the subsidy by the VIC-located organizations for the Catering Services is significantly high. The amount of the subsidy is not in compliance with the principle of Catering Service as a self-sustaining, non-profit-making operation. The contract with the caterer does not provide for economic management incentives.

22. The Austrian Government intended to provide office space in the VIC for another international organization and upon request, UNIDO moved within the VIC. Costs of relocating and maintaining office space vacated by UNIDO totalling US\$ 956,330 have not yet been paid by the Government of Austria.

23. In 1982 the representatives of IAEA and UNIDO agreed that the Commissary should be charged an annual amount of US\$ 100,000, which approximates the actual incremental costs of utilities associated with the operation of the Commissary. In 1993 and 1996 UNIDO reviewed the calculation of the utility costs and concluded that the total of these costs amounted to almost US\$ 400,000 p. a.. However, the Consultative Committee of Common Services decided that the Commissary's charges would be maintained at US\$ 100,000 which results in financial disadvantages for UNIDO.

24. The Common Printing Services Agreement concluded between UNIDO and IAEA in particular cases

results in financial disadvantages for UNIDO. I recommend to review and renegotiate the Agreement.

25. The decline of the ratio "project expenditure for technical cooperation activities compared to regular budget expenditure" has been stopped.

26. In the view of the General Conference one of the important dimensions in the reform process was the strengthening of UNIDO's field representation and delegation of authority to the field. However, not much progress has been made in this direction.

27. In 1996 UNDP and UNIDO signed new cooperation agreements. According to similar agreements other UN agencies have introduced their representatives to their host governments. As UNIDO's UCDs have not received the Agrément of the Government, they are no more in the position to represent UNIDO. UCDs were not even given the authority to settle matters of minor financial implications. There were relevant communication deficiencies between Headquarters and the field.

28. Efforts to improve UNIDO's quality management and to implement a method of self-assessment of organizational performance were not sufficiently supported by Managing Directors.

29. Several unaccomplished improvements regarding the Regular Payroll System to avoid manual calculations and payments and to reduce monthly worktime of staff were still pending. It is planned to further reduce MIS staff and the number of consultants mostly dealing with maintenance of existing mainframe applications especially the "year 2000 problem".

30. Though the three UN organizations in Vienna follow the same rules they use different payroll systems.

31. UNIDO's Geneva Liaison Office gets little information on the status of ongoing joint activities as well as on programmes from HQ. As an important portion of communication between the UN system and UNIDO and vice versa circumvents the Office, its objective of providing and maintaining an effective channel of communication with UN, the specialized agencies etc. is somewhat restricted.

32. Some of UNIDO's committees had no significant relation to substantive matters and if so, there was an unclear understanding of the purpose. Often it was difficult to collect information on whether a committee was to be categorized as active or passive, its purpose, its composition (actual membership) and the officer in charge.

33. The output ratio, technical cooperation expenditure per US\$ spent for staff costs of substantive divisions, has increased.

34. Financial constraints led UNIDO to initiate another staff reduction programme in November 1995. During the biennium 1996-1997 the number of posts approved was reduced by 23 per cent. While the vacancy rate was at 13.5 per cent in December 1995 it had been brought down to 9.7 per cent as at the end of the biennium.

35. At the end of 1996, the representation of women had decreased as compared to 1993. The overall representation at the Professional level went down to 22.7 per cent and the proportion of women at the senior Professional level to 11.2 per cent.

III. BUDGETARY, ACCOUNTING AND FINANCIAL REPORTING PROCEDURES

A. Regular budget assessed contributions income

36. The assessed contributions from Member States in respect of the 1996-1997 regular budget of the Organization amounted to US\$ 202,195,200. Of this amount, a total of US\$ 155,104,255 or 76 per cent, was received by 31 December 1997 leaving an outstanding balance of US\$ 47,090,945.

37. Thus, the cumulative unpaid contributions of US\$ 99,974,511 as at 31 December 1997 included US\$ 52,728,647 or 53 per cent due in respect of the 1994-1995 and prior fiscal periods.

38. I noted that 69 Member States, including new Member States, accounting for 83 per cent of the assessment for 1996-1997, had fully paid their assessed contributions to the UNIDO regular budget as at 31 December 1997. On the other hand, 71 Member States, accounting for 8.8 per cent of the 1996-1997 assessment, had not contributed to the financing of the 1996-1997 regular budget of the Organization throughout this period. The arrears in respect of prior biennium's assessments as at 31 December 1997 were due from 67 Member States, out of whom accounted for 48.7 per cent (US\$ 8,265,613) of the total amount due. The debt of one Member State which left the Organization during the biennium is not included in these figures.

39. A summary of relevant data regarding the status of unpaid assessed contributions from Member States to the UNIDO regular budget throughout the 1986-1997 period is provided in tables 1 and 2.

Table 1

UNIDO—REGULAR BUDGET

Status of contributions unpaid (including new Member States), 1986-1997
(In United States dollars)

<i>Status as at</i>	<i>For the biennium</i>						<i>Total</i>
	<i>1986-1987</i>	<i>1988-1989</i>	<i>1990-1991</i>	<i>1992-1993</i>	<i>1994-1995</i>	<i>1996-1997</i>	
<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d)</i>	<i>(e)</i>	<i>(f)</i>	<i>(g)</i>	<i>(h)</i>
31 Dec. 1986	16,496,226	-	-	-	-	-	16,496,226
31 Dec. 1987	26,140,533	-	-	-	-	-	26,140,533
31 Dec. 1988	2,953,466	23,763,254	-	-	-	-	26,716,720
31 Dec. 1989	904,350	31,203,654	-	-	-	-	32,108,004
31 Dec. 1990	515,366	4,730,210	28,942,294	-	-	-	34,187,870
31 Dec. 1991	180,666	1,704,131	28,698,921	-	-	-	30,583,718
31 Dec. 1992	148,882	630,135	10,825,224	28,842,871	-	-	40,447,112
31 Dec. 1993	142,944	475,694	2,490,909	36,814,839	-	-	39,924,386
31 Dec. 1994	131,322	443,693	2,313,739	14,562,902	29,656,253	-	47,107,909
31 Dec. 1995	119,742	255,741	1,404,201	5,186,192	74,635,463	-	81,601,339
31 Dec. 1996	101,288	226,579	1,373,650	3,721,860	56,401,791	47,519,484	109,344,652
31 Dec. 1997	92,642	187,503	1,317,012	2,526,936	48,604,554	47,245,864	99,974,511

Source: Financial statements of the biennium 1996-1997, statement II, schedule 2.1.

Table 2

UNIDO—REGULAR BUDGET

Status of assessed contributions unpaid, 1986-1997
(In per cent of total assessments for year or biennium)

<i>Status as at</i>	<i>For the biennium</i>					
	<i>1986-1987</i>	<i>1988-1989</i>	<i>1990-1991</i>	<i>1992-1993</i>	<i>1994-1995</i>	<i>1996-1997</i>
<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d)</i>	<i>(e)</i>	<i>(f)</i>	<i>(g)</i>
31 Dec. 1986	29.2	-	-	-	-	-
31 Dec. 1987	22.6	-	-	-	-	-
31 Dec. 1988	2.6	30.8	-	-	-	-
31 Dec. 1989	0.8	21.0	-	-	-	-
31 Dec. 1990	0.4	3.2	32.8	-	-	-
31 Dec. 1991	0.2	1.1	16.7	-	-	-
31 Dec. 1992	0.1	0.4	6.3	28.0	-	-
31 Dec. 1993	0.1	0.3	1.4	18.4	-	-
31 Dec. 1994	0.1	0.3	1.3	7.3	25.2	-
31 Dec. 1995	0.1	0.2	0.8	2.6	31.7	-
31 Dec. 1996	0.1	0.2	0.8	1.9	23.9	47.0
31 Dec. 1997	0.1	0.1	0.8	1.3	20.6	23.4

Source: Financial statements of the biennium 1996-1997, statement I and schedule 2.1.

B. Regular budget implementation

40. Out of the total (gross) appropriations of US\$ 237,049,600 (valued at the average exchange rate for the biennium 1996-1997 of US\$ 1 = AS 11.28) for the regular budget of the Organization in respect of the biennium 1996-1997, a sum of US\$ 191,194,000 was expended as at 31 December 1997 leaving an unspent (gross) balance of US\$ 45,855,600.

41. The excess of the balance of appropriations over expenditure plus excess of total income over approved estimates in the amount of US\$ 39,373,500 at the end of the second year of the biennium 1996-1997 (statement IV) thus represented 16.6 per cent of the appropriations. The corresponding unutilized balance for the prior fiscal periods amounts to:

US\$ 361,147	or 0.3 per cent of the appropriations for 1986-1987,
US\$ 731,292	or 0.5 per cent for 1988-1989,
US\$ 2,055,708	or 1.2 per cent for 1990-1991,
US\$ 11,083,522	or 5.5 per cent for 1992-1993,
US\$ 27,053,112	or 10.1 per cent for 1994-1995, and
US\$ 39,373,500	or 16.6 per cent for 1996-1997.

42. When comparing the above-mentioned figures for the current biennium with prior fiscal periods one has to take into account the level of unpaid assessed contributions, in particular of one Member State, originally accounting for 25 per cent of the assessment. In order to meet these financial constraints the Organization reduced budget execution of various programmes. Because of these necessary reductions, total expenditure could not meet the approved appropriations.

43. Similarly, the provisional excess of regular budget income over expenditure at the end of the second year of the biennium 1996-1997 amounted to US\$ 37,806,500. Table 3 shows that this figure is extraordinarily high. The reason is that assessed contributions unpaid are considered as income in accordance with accounting standards.

C. Regular budget unliquidated obligations

44. According to financial regulation 4.2 of UNIDO, regular budget appropriations shall be available for twelve months following the end of the fiscal period to which they relate, to the extent that they are required to discharge obligations in respect of goods supplied and services rendered during that fiscal period and to liquidate any other outstanding legal obligation of that fiscal period.

In those cases where the legal obligation cannot be liquidated within the time period mentioned above, each obligation has to be examined and cancelled or reobligated against current appropriations (financial rule 104.2). A cancelled obligation results in savings on liquidation of obligations in the following biennium and increases the provisional excess of income over expenditure. Finally, this results in a surplus, which to the extent it has been paid in shall be surrendered to Member States.

45. The unliquidated obligations as of 31 December 1997 carried forward to the biennium 1998-1999 totalled US\$ 11,685,000. Compared with the unliquidated obligations carried forward to the biennium 1996-1997, they have fallen from 9.9 per cent of the biennial expenditures to 7.1 per cent (see table 4).

46. Compared with the biennium 1994-1995, the savings on liquidations of obligations rose from US\$ 3,675,236 to US\$ 3,879,311. This means that 19.13 per cent of the unliquidated obligations at 31 December 1995 (US\$ 20,278,456) were not disbursed. Although the savings on liquidations have dropped from 25.51 per cent in the prior biennium to 19.13 per cent in the current biennium, I still consider this a high percentage. This illustrates the tendency to overobligate.

D. Unliquidated obligations—UNDP Operating Fund

47. The amount of unliquidated obligations in the UNDP Operating Fund is the lowest since 1989 (see table 5). However, a comparison with the regular budget reveals that the percentage of unliquidated obligations of the total expenditures is still significantly high.

48. During the audit of the interim accounts for the first year of the fiscal period 1996-1997 my staff found some unliquidated obligations that dated back to 1991. The final audit again revealed unliquidated obligations dating back five years and more.

49. The General Guidelines for the Preparation of UNDP Financial Reports lay down that obligations should normally be liquidated by the year following the one in which they were established. Only those obligations can be retained for which a firm liability to pay the amount obligated exists. According to UNDP instructions "1997 Year-End Closure of Accounts" all 1995 and prior obligations had to be settled or liquidated by 31 December 1997.

Table 3
UNIDO—REGULAR BUDGET

Unutilized balances of appropriations and biennial excesses of income over expenditure, 1986-1997
(In United States dollars)

<i>Status of</i>	<i>Biennium</i>					
	<i>1986-1987</i>	<i>1988-1989</i>	<i>1990-1991</i>	<i>1992-1993</i>	<i>1994-1995</i>	<i>1996-1997</i>
<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d)</i>	<i>(e)</i>	<i>(f)</i>	<i>(g)</i>
Unutilized balance of appropriations (gross) at the end of the second year of the biennium	685,306	2,817,785	5,793,472	18,114,311	23,924,300	45,855,600
Unutilized balance of appropriations (net) at the end of the second year of the biennium	361,147	731,292	2,055,708	11,083,522	27,053,112	39,373,500
(Provisional) excess of income over expenditure at the end of the second year of the biennium	361,147	1,521,997	5,340,096	8,674,693	31,405,845	37,806,500
Final excess of income over expenditure for the biennium	4,377,386	6,496,192	8,746,822	14,732,924	32,300,000	-

Source: Financial statements of the biennium 1996-1997, statement IV, statement III.

Table 4
UNIDO—REGULAR BUDGET

Status of unliquidated obligations and savings on the liquidation of obligations, 1986-1997

Status of unliquidated obligations as at 31 December of the second year of the biennium

<i>(a)</i>	<i>Biennium</i>					
	<i>1986-1987</i>	<i>1988-1989</i>	<i>1990-1991</i>	<i>1992-1993</i>	<i>1994-1995</i>	<i>1996-1997</i>
<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d)</i>	<i>(e)</i>	<i>(f)</i>	<i>(g)</i>
In United States dollars	10,169,712	16,997,057	9,843,155	14,409,403	20,278,456	11,685,000
In per cent of total regular budget expenditure	7.6	9.8	5.8	7.5	9.9	7.11
Total of savings realized on the liquidation of obligations (in United States dollars)	3,687,220	1,876,917	2,242,258	3,675,236	3,879.3	-

Source: Financial statements of the biennium 1996-1997, schedule 4.1, statement III.

Table 5
UNIDO-UNDP OPERATING FUND

Status of expenditures 1989-1997
(In United States dollars)

<i>Year</i>	<i>Unliquidated obligations</i>	<i>Expenditure</i>	<i>Percentage</i>
<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d)</i>
1989	33,193,764	90,188,554	36.8
1990	39,829,606	108,631,267	36.7
1991	30,813,579	86,876,391	35.5
1992	19,947,314	67,328,372	29.6
1993	12,884,793	63,508,336	20.2
1994	13,355,088	38,984,761	34.3
1995	9,091,112	30,995,868	29.3
1996	6,696,806	23,794,695	28.1
1997	5,349,494	18,467,034	29.0

Source: Financial statements of the biennium 1996-1997, Report No. 1—UNDP, Status of Operating Fund.

50. As mentioned in my previous report, Management had announced that the responsible officers were again alerted to the importance of cancelling invalid obligations. As a matter of fact, in this respect the situation is almost unchanged. UNIDO did not follow the UNDP instructions with regard to the treatment of the unliquidated obligations.

51. The responsible officers should exercise a stricter control so that only valid obligations be certified and obligations without validity be cancelled in time. Management should ensure that this practise takes effect and that UNDP Guidelines will be adhered to.

52. Management replied that it held information meetings with staff involved in connection with the obligation review emphasizing that attention should be paid to the validity of unliquidated obligations.

E. Bank reconciliations

53. At the end of the biennium my staff carried out a sample review of the reconciliation of the balances of UNIDO's bank accounts as at 31 December 1997 with those of the relevant bank statements. Twenty-four banks were asked for a confirmation of bank balances and investments; 17 banks (71 per cent) returned the filled out confirmation, out of which 14 (60 per cent) were examined by my staff. In all cases the year-end reconciliation had been performed.

F. Recording contributions-in-kind

54. Following my recommendations the amount of contributions-in-kind is now disclosed in the notes to financial statements 2 (s), 3 (d) and 4 (m). The total amount is of considerable importance to UNIDO.

55. There is no UNIDO specific financial rule or regulation covering the issue of support costs on contributions-in-kind. However, DGB(E).74 issued on 25 September 1997 making reference to Article 16 of the Constitution of UNIDO provides guidelines on the acceptance of voluntary contributions to the Organization including the acceptance of non-reimbursable loans of personnel services. According to these guidelines the established principles of the UN system as outlined in ST/AI/231/Rev.1 of 23 January 1991 have to be adhered to. This instruction stipulates the payment of 14 per cent of the value of the services as support costs (normal rate of 13 per cent plus 1 per cent according to Appendix D of the Staff Rules).

56. In January 1998 the Director-General agreed:

C To apply a "0 per cent" rate of support costs in two specific cases of non-reimbursable loans of personnel services.

C That "in general, in such cases where we can obtain additional resources at our initiative for UNIDO

projects in the interest of developing countries we may, if this is required in order to obtain the contribution, accept such resources without any support cost reimbursement."

57. Financial rule 106.21 empowers the Director-General to set rates differing from the normal rates of reimbursement on condition that the Director, Financial Services gives such an advice. My staff found no evidence that the aforementioned decision is supported by corresponding advice of the Director, Financial Services to the Director-General. Henceforth, the instruction to apply a "0 per cent" is not in line with financial rule 106.21.

58. As far as a general waiver is concerned I have several reservations to make:

C Such practice would be a departure from long-standing principles applied by the UN bodies. The recently issued UNIDO/DGB(E).74 which provides guidance on the acceptance of voluntary contributions including in-kind-contributions given by the private sector does not indicate any deviation from those principles (paras. 3, 9-10).

C A general waiver of support cost may enhance the competition between UN bodies. This competition would not be limited to the provision of such contributions-in-kind, but would encompass the funding of programmes and projects in general. There has always been a more or less articulated reluctance to pay 13 per cent support costs on any voluntary contributions. Since IDB has recommended that UNIDO invite private sector companies to sponsor projects (IDB.18/9—25 July 1997—para. 20), in the long run a deterioration of funding and managing of trust funds and special-purpose funds within IDF cannot be excluded, if the policy of "0 per cent" rates of support costs would be applied in general (even temporarily restricted to the contributions-in-kind). UNIDO would get a temporary advantage only as the Organization has no financial basis to compensate costs of managing extrabudgetary contributions with other cash resources.

C It might be argued that the loss of support costs relating to in-kind-contributions would be set off by the support costs levied on the total budget of a project. This argument is not valid. Several studies indicate that the calculated 13 per cent support cost actually does not cover the costs of the implementing organization.

C As the Organization has to cover servicing and administrative costs in the cases of acceptance of personnel services on a non-reimbursable loan basis, its activities are not limited to issuing a contract only.

59. Keeping those various aspects in mind, the application of a "0 per cent" rate of support costs in cases where a donor offers personnel services on a non-reimbursable loan basis seems more than debatable. Alternatively, the application of a lower rate than the one of 13 per cent for voluntary contributions-in-kind should be thoroughly reviewed in contact with other UN bodies.

60. Management does not agree with the conclusion that the action taken in these two cases will lead to a 0 per cent rate of support costs in general. Additionally it points out that the provision of cost-free experts does not always result in administrative costs. It is the understanding of Management that other organizations in the UN system, using cost-free experts similar to the two cases in question, do not charge support costs. The wording as quoted above obviously is not restricted to the two specific cases mentioned. In the reply to the audit observation UNIDO stated that "gratis personnel", furthermore, can not be considered as 'no cost' proposition for the Organization as the financial implications include such costs as secretarial and administration backstopping, equipment supplies, office space, utilities, communications, legal and medical services, as well as costs for official travel, daily subsistence allowance and participation in training and language programmes." Concerning the practice in other UN organizations, the Secretariat has not provided evidence that other organizations do not charge support costs. Contrary to that, the UN in the report of the 49th meeting of The Fifth Committee dated 11 March 1997 (GA/AB/3135) stated that it charges 13 per cent for the support costs. A departure from this general line would indeed have far-reaching consequences as outlined above.

IV. CASH MANAGEMENT

A. Cash in banks

61. At the end of the 1996-1997 biennium General Fund and Working Capital Fund cash and term deposits amounted to about US\$ 13.5 million. Considering the severe financial constraints towards the end of 1997 this amount is relatively high. As UNIDO was already postponing the settlement of expenditure, the receipt of significant delayed contributions at the end of the biennium contributed to the positive cash level as at 31 December 1997.

62. This cash balance should therefore not lead to the impression that the financial situation of UNIDO was satisfactory. The fact that a lot of necessary expenditures have been postponed and the high amount of short-term liabilities (unliquidated obligations and accounts payable) which exceeds the cash balance should be kept in mind. Additionally, another staff reduction exercise had to be financed during the first weeks of 1998.

B. Liquidity position

63. To have a closer look at liquid funds my staff analysed General Fund and Working Capital Fund as to whether the funds reported in the Statement of Assets and Liabilities are available on short-term.

64. To assess UNIDO's General Fund liquidity position as at 31 December 1997 I considered all assets and liabilities in order to classify them as long-term or short-term items. The maturity of short-term items should not exceed six months.

65. Based on past experience and specifically according to the result of my 1995 review I considered a portion of 70 per cent of outstanding contributions as at 31 December 1997 as long-term assets, as this amount remained unpaid at the end of the first six months of the following year. Therefore, 30 per cent of these contributions are considered short-term only. My forecast is supported by the Treasurer's opinion, who expects an amount of about US\$ 11 million of prior years assessed contribution to be collected in 1998. Accordingly, the respective portion of the provision for delays in the collection of contributions has to be considered as short-term.

66. To calculate the percentage I excluded the amount of about US\$ 60.9 million due from the United States (about US\$ 40 million in the calculation for the 31 December 1995), because I do not expect the US government to pay this debt in the near future.

67. The balance of the separation indemnity reserve remaining from the former staff separation exercise as well as the unliquidated obligations are in my view short-term as they will mainly be utilized in the first six months of 1998.

68. My calculation shows, that total liquid cash at the end of the 1996-1997 biennium amounted to a negative figure of about US\$ 11.8 million (see table 6). This lack of liquid funds will be covered by the expected short-term contributions. UNIDO is therefore again entirely dependent on the timely payment of contributions by the Member States. As the Working Capital Fund was depleted, there were no financial resources available to overcome a delayed payment of contributions in 1998.

(i) Provision for delays in the collection of contributions

69. UNIDO, following a decision of CCAQ (FB), set off the whole amount of outstanding contributions at 31 December 1997 as a "provision for delays in the collection of contributions".

70. The introduction of a provision for delays in the collection of the contributions as such is in line with recommendations of the Panel of External Auditors. However, at its 38th session, the Panel did not agree with the standard approved by the CCAQ(FB) that "Such provision shall be 100 per cent of the unpaid contributions at the date of the financial statements at the end of the financial period". The Panel recommended that all

Table 6

UNIDO—REGULAR BUDGET

Liquidity position
(In United States dollars)

<i>Assets and liabilities</i>	<i>End of biennium</i>			<i>Difference</i>
		<i>31 December 1995</i>	<i>31 December 1997</i>	
	<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d)</i>
Assets				
Long-term				
Advances		1,921,684	1,093,105	(828,579)
Income tax recoverable		1,198,055	903,603	(294,452)
Contributions receivable		69,147,243	27,307,485	(41,839,758)
	Subtotal A	72,266,982	29,304,193	(42,962,789)
Short-term				
Cash		11,306,705	13,509,100	2,202,395
Accounts receivable		9,542,794	7,420,592	(2,122,202)
Contributions receivable		12,454,096	11,703,208	(750,888)
Deferred charges		1,281,371	0	(1,281,371)
	Subtotal B	34,584,966	32,632,900	(1,952,066)
	Total assets (A+B)	106,851,948	61,937,093	(44,914,855)
Liabilities				
Long-term				
Surpluses to member states		52,809,795	(24,608,600)	(77,418,395)
Provision for national income tax		950,490	0	(950,490)
Reserves		307,340	0	(307,340)
Loan from UN		10,000,000	8,000,000	(2,000,000)
Advance from Working Capital Fund		6,323,400	6,762,600	439,200
Provision for delays in the collection of contributions			27,307,485	27,307,485
	Subtotal A	70,391,025	17,461,485	(52,929,540)
Short-term				
Accounts payable		4,967,028	3,821,600	(1,145,428)
Unliquidated obligations		20,278,456	11,685,000	(8,593,456)
Due to other funds		2,459,871	1,045,100	(1,414,771)
Separation indemnity reserve		8,755,568	15,590,600	6,835,032
Contributions received in advance			630,100	630,100
Provision for delays in the collection of contributions			11,703,208	11,703,208
	Subtotal B	36,460,923	44,475,605	8,014,685
	Total liabilities (A+B)	106,851,948	61,937,093	(44,914,855)
Excess of current assets over current liabilities		(1,875,957)	(11,842,708)	(9,966,751)
Decrease in short-term assets				(1,952,066)
Less increase in short-term liabilities				8,014,685
				(9,966,751)

organizations should make a reasonable provision for delay in the collection of contributions. As a guideline the level of the provision might be set to reflect assessed contributions not received two full years after the end of the financial period to which the contributions relate.

71. I support this recommendation because I feel it inconsistent to make a provision for all unpaid contributions at the end of a financial period when experience shows, that one-third of the outstanding amounts will be paid in the short-term.

(ii) Financial implications of the 1998 staff reduction

72. In December 1997, the General Conference urged Member States to provide additional cash required to finance the staff separation programme by voluntary contributions and advances from Member States. However, the response to this decision has not been very enthusiastic. Only three Member States paid at all—US\$ 249,307 either by loan to be repaid or by advance against the 1999 contribution and US\$ 19,002 by making a voluntary contribution. Therefore, cash amounting to about US\$ 11 million resulting from prior years unpaid contributions expected to be collected in 1998 will fully be needed to cover the voluntary part of the staff separation programme.

73. As a result, regular contributions in a considerable amount will have to be used for the staff reduction and will—therefore—not be available for the urgently needed programme support with possibly negative effects on programme delivery.

(iii) Development in 1998

74. The cash problems as foreseeable at 31 December 1997 materialized in the first months of 1998.

(iv) Working Capital Fund

75. Although the conditions to start into the new biennium were not satisfying because significant financial resources were not available, the Director-General decided to fully replenish the Working Capital Fund to the required level. This was done in February 1998 by a transfer of US\$ 6.61 million to the Working Capital Fund.

76. This decision was in line with the recommendations in my past reports. However, this step will have a sustainable effect only, if it is supported by additional financial resources. Without further voluntary contributions and advances or significant improvements in the payment of assessed contributions, I do not expect the US\$ 6.61 million in the Working Capital Fund to survive the staff reduction exercise and the full implementation of 1998 programmes.

(v) Cash flow forecast

77. The Treasurer calculates the cash flow forecast for the remaining year on a monthly basis. In a further attachment I present a chart containing the current cash balances month by month for the last two years and the forecast for 1998 (table 7).

78. The figures for 1998 assume full implementation of the regular budget and end with a negative cash balance of about US\$ 3.1 million. Including an anticipated amount for unliquidated obligations of US\$ 6.7 million, this year will end with a deficit totalling US\$ 9.8 million.

(vi) Action taken by Management

79. To meet the lack of cash resources the Director-General decided to cut most of the allotments and reduce the budget implementation level. The only major expenditures exempted were the staff costs. The Director-General authorized the expenditures for most programmes at 60 per cent of the approved programme and budget levels.

80. Although I basically agree with these saving measures I have to point out that such a drastic cut might affect important activities of UNIDO.

81. From the point of view that the budget was approved by the General Conference on a reasonable level a cut by 40 per cent must have effects on delivery and programme management in general. As the cut also concerns expenditures for the Buildings Management Service, which is cost-shared by other UN organizations in Vienna, it is doubtful whether the reduced level of expenditure can still ensure a minimum level of service and security in the VIC.

(vii) Contribution income and expenditure

82. Generally, the accuracy of a cash flow forecast depends on a reasonable expectation of a timely inflow and outflow of cash. In this respect there are still some shortcomings. One major contributor did not pay the 1998 contribution in February as expected. This left for UNIDO an amount of US\$ 2.67 million instead of US\$ 11.8 million. The monthly requirements are at about US\$ 7 million in the General Fund.

83. At the same time the Treasurer is still not appropriately provided with the necessary information about cash payments. As early as 1995 I identified shortcomings in the relevant information system. Treasury was not provided with necessary data or the information was incorrect. Management had announced to follow my recommendations. However, at the end of the past biennium the situation was still the same.

84. Therefore, the Treasurer is not in a position to match, as far as possible and in the most cost-effective

way, the inflow of cash with the outflow. This adds to the financial uncertainties UNIDO has to face.

85. UNIDO's financial situation gives rise to serious concern. UNIDO needs regular payment of contributions to cover regular expenditures. There are no cash reserves. The steps possible to save funds have been taken. UNIDO is now not in a position to react to additional requirements and it is not even able to carry out its regular activities to the extent necessary.

86. To avoid further shortfalls Management should

- C Stress the need for an immediate payment of outstanding contributions for prior years towards the Member States concerned
- C Try to reliably obtain payments for the current period
- C Reconsider all cuts of allotments to avoid negative impact on the Organization's performance or its reputation within the VIC and among outside contractors.

87. To be able to get more reliable cash forecasts Management should

- C Start negotiations with Member States to ensure reliable and timely receipt of payments and
- C Ensure that Treasury receives comprehensive information about the financial requirements involved in procurement and contracts activities.

V. CONTRACTS AND PURCHASES

A. *Post facto* requisition

88. My staff noted several cases in which orders for supplies were placed or contractual arrangements made without following the established procedures. Conflicts arose when purchases or services rendered had to be settled. In order to process necessary payments without delay available funds were sometimes charged as straight expenditure although the amount due was above the allowed ceiling of US\$ 1,000 for this procedure.

89. In one case the amount involved totalled US\$ 85,000. Meanwhile instructions have been issued in order to prevent infringements of the established procedures. However, I would like to stress that, in my opinion, the instrument of straight expenditures should not be misused for such *post facto* actions.

VI. PUBLICATIONS

90. From October 1995 on, my staff reviewed the activities of UNIDO in the field of publications. They put audit emphasis on the Publication Strategy, the functions of the Publications Board and two particular publications,

"UNIDO 1994: The Year in Review" and the Global Reports 1995 and 1996.

A. Publication strategy and Publications Board

91. Until May 1996 the Publication Board, established in 1986, was responsible for the development and implementation of the Publication Programme of UNIDO. During our earlier review, my staff found out, that—due to a large number of members, a high rate of attrition and irregularly held meetings—the Board had neither been able to develop generally accepted standards to govern its publication policy, to draft a publications programme nor to develop a comprehensive marketing strategy or analyse and evaluate the effectiveness, efficiency and economy of sales publication (i.e. lack of a current sales catalogue, lack of stock control resulting in excessive print runs, ineffective distribution methods, unsatisfactory pricing, no credit cards accepted, no evaluation whether publications have reached the targeted audiences). Moreover, our review revealed that accurate and efficient tools for base accounting were lacking. For years there had been fruitless discussions about creating a revolving fund. Uncollected receivables from sales to external publishers had not been included in the financial statements. I therefore recommended a reform of the UNIDO publishing policy.

92. In May 1996 the Director-General issued bulletin UNIDO/DGB(O).13, which established a new organizational structure comprising the Publications Board, the Publications Committee and the Information Technology Products Committee. In this Bulletin, only the functions and the membership of the first two entities were outlined. The renewed investigation in early 1997 further revealed that neither Board nor Committee met as often as they were supposed to according to the Bulletin. E.g. the Board, which had overall responsibility for developing and implementing a proactive programme for publishing, was convened for one initial meeting only. Less than half of the membership of the Committee attended two meetings. As a consequence, no clear comprehensive publishing policy and procedures have been elaborated. Accordingly, the daily operations have been dealt with on an *ad hoc* basis. Further work in this matter has been obviated by the suspension of the Publications Board and Committee respectively since 9 January 1998.

B. Publications

93. In addition to UNIDO's Annual Report 1994 the Public Information Section edited the English version of "UNIDO 1994: The Year in Review". According to the foreword by the Director-General the main target group were those unfamiliar with UNIDO. Thus the topics selected were less technically presented and highlighted in a more reader-friendly manner. The audit revealed that large numbers of this publication were printed by an

external printer on an urgent basis for an IDB meeting in Vienna and a ministerial meeting in Montevideo in the year 1995. Some 40 per cent of the English version was distributed to the delegates of the IDB who, in my view, could not be considered as persons unfamiliar with UNIDO. The specification of an embossed cover for the publication required outside printing and an interruption of the printing process due to budgetary constraints. The interruption caused an increase in printing costs by some 30 per cent per copy. In March 1997 over 1,000 copies of the French version and over 1,200 copies of the Spanish version were still on stock.

94. The Global Report constitutes the flagship publication of UNIDO. Although its preparation dominated the entire UNIDO publishing system, in the past the sales figures were low. In order to reverse the situation and to upgrade UNIDO's image in a crucial situation, the Organization concluded co-publishing arrangements for the English as well as the Spanish edition of the Global Report 1995. The French version of the report was still edited and printed "in house". UNIDO staff travelled to the UK and Mexico respectively to discuss the agreements as well as technical matters. Nevertheless, contrary to financial instructions UNIDO permitted the publisher to start printing of the Spanish version before the contract was signed. The preparation of the print ready film for the co-published editions required a huge amount of editorial effort within UNIDO. Nevertheless, the printing quality of the in-house produced French edition surpassed those of the external publishers. In March 1997 nearly 50 per cent of the copies printed were still on stock.

95. For the printing and distribution of the English and Spanish versions of the Industrial Development Global Report 1996 UNIDO renewed the contracts with the co-publishers. The Publications Committee saw advantages in establishing a long-term relationship with the publishers on the condition that the terms of the contract could be renegotiated each year. Nevertheless the Memorandum of Agreement for the Global Report 1996 was signed without further negotiations in August 1996. Once again the preparation of the print-ready film for the edition in English proved to be complex and cumbersome. A staff member had to visit the publisher solely to eliminate technical problems. After having received the draft the English publisher informed UNIDO that the print run had been adjusted according to the increase in pages. Later he announced an increase in prices due to delays in the agreed schedule. Although no answer was given to the request for specification, UNIDO paid the increased fee.

96. As in the previous year a representative of UNIDO went to Mexico in July 1996 in order to establish personal contacts and to discuss further arrangements with the publisher of the Spanish version. The contract was finally concluded on 28 October 1996. In order to keep to the schedule of issuance, the publisher again began printing before the final conclusion of the agreement. Moreover,

the Memorandum of Agreement concluded with the publisher stipulates that he shall provide documentation and pay to UNIDO all moneys collected. Notwithstanding this contractual obligation the Organization did not receive any information about the sales in 1996 prior to our audit. Based on an Audit Observation a special request was sent in April 1997. In May 1997 the publisher confirmed outstanding payments of almost US\$ 7,500. This amount was not included in the financial statements for 1996.

97. According to the contracts concluded with both publishers, they are required to carry out any marketing activities necessary. UNIDO paid both publishers a fee for marketing the Global Report. Concurrently the Organization followed a strategy to launch the Report in various locations on its own. Additional promotional activities were undertaken in various ways. By doing this UNIDO diminished its possibilities to evaluate the efficiency and the effectiveness of the co-publishing arrangements (e.g. increase of sales, lower cost of production, reader's response). This is regrettable for two reasons. Firstly, irrespective whether a UNIDO activity is mandated by the policy-making organs, they have to be performed in the most economic way, including the proper evaluation of such actions. Secondly, an evaluation would have provided the chance to shed light in the UN system-wide discussion on the effectiveness of newly concluded co-publishing arrangements (see report of the Joint Inspection Unit JIU/REP/97/2).

C. Conclusions

98. The publication of "UNIDO 1994: The Year in Review" highlights the difficulties resulting from a lack of the publication strategy as well as of cooperating the printing of a publication: By avoiding the costs for urgent printing the costs for the publication could have been limited considerably. Moreover, the number still on stock at the time of the audit reveals that the planning was not very reliable. The publication of the Global Report was accompanied by a lot of technical problems and misunderstandings, which led to an increase in workload and cost. Although both co-publishers did not fulfil the contracts, UNIDO did not renegotiate the terms of the contract. An efficient supervision of contracts could have avoided many of the difficulties incurred. Furthermore, the Organization lacks a cost-accounting for the publications. A comparison of the costs for internal versus external printing is therefore impossible.

99. Management replied that the need to formulate a comprehensive publishing policy was recognised as an urgent priority. One reason for the difficulties was due to manpower shortage. Many of the shortcomings had already been remedied, e. g. the introduction of a follow-up system to ensure a regular reporting of sales. The Global Report needed to be considered a non-commercial and hence a non-profit making publication.

100. I welcome the improvements Management has already implemented. Nevertheless there are some basic

issues. Firstly a clear and concise publication strategy and guidelines for the day-to-day business should be established in due course. Secondly a comprehensive marketing concept dealing with the distribution of the publications should be elaborated. Thirdly, after the restructuring of the Organization and the actual process of transformation, there is no unit or person who is responsible for the development and implementation of a publications strategy. Fourthly the Organization is not able to provide the necessary data to perform an evaluation. Neither the mandate of Article 2 (h) of the Constitution of UNIDO to disseminate knowledge and information on industrial development issues among the Member States and the industrial community at large nor the purpose of enhancing the image of the Organization justify the excessive publication costs. In my view, the full costs of publications need to be identified, made visible in official documents and be brought to the knowledge of the Member States.

VII. COMMON SERVICES

101. On 31 March 1977 the Secretary-General of UN, the Director General of IAEA and the Executive Director of UNIDO signed a Memorandum of Understanding (MoU) concerning the allocation of Common Services at Donaupark Centre in Vienna (VIC). In this MoU, *inter alia*, the responsibility for managing and operating the Commissary was assigned to IAEA, while UNIDO was responsible for the operation and management of Buildings Management Service and Catering Services.

A. Buildings Management Service

102. The expenses for operating and managing Buildings Management Service (BMS)—without the administrative support costs of UNIDO—are on one hand expenditures in the accounting system of UNIDO. As far as the other participating organisations are concerned, the refund of costs on the other hand represents income for UNIDO. UNIDO therefore has to bear only its own share of the cost of BMS.

103. In the programme and budgets, 1998-1999, UNIDO proposed that the responsibility for the provision of Buildings Management Service should be transferred by 1 January 1999 to another agency within the VIC. At first glance one might have the impression that this measure would reduce total expenditures for UNIDO. A further examination of the budget discloses however that UNIDO would not make any savings, because there would be no income from other participating organizations to refund outlays.

104. Based on the MoU with the IAEA and UNOV, each agency assumed responsibility for a part of the joint and common services at the VIC. The MoU does not provide for refunding of support costs. The basic assumption for this arrangement was that each organization carries more or less the same burden by managing its part of the common services.

105. The MoU was signed on the ground that each participating organization take responsibility for parts of common services corresponding to its size in terms of staff members and office space occupied. Table 8 shows that after 20 years the staff situation of UNIDO has completely changed. Accordingly the occupied space has been reduced. In addition, since 1997 a new international organization has been located in the VIC.

Table 8

UNIDO—REGULAR BUDGET

Cost sharing of Buildings Management Service
in the VIC

<i>Vienna-based organization</i>	<i>Number of staff</i>	<i>Percentage</i>	<i>Number of staff</i>	<i>Percentage</i>
UNIDO	1,404	39.26	746	21.12
IAEA	1,560	43.62	1,899	53.77
UNOV	365	10.21	792	22.42
UNRWA/CTBTO	247	6.91	95	2.69
Grand total	3,576	100.00	3,532	100.00

106. So far none of the other organizations has been willing to take over the responsibility for BMS and Catering. I recommend that UNIDO terminate the MoU in order to negotiate a complete new arrangement for joint and common services. In this context the option of centralizing all Common Services should be taken into account.

107. Management admits that there is an imbalance concerning the responsibility for managing and operating the Common Services, which could be renegotiated. It considers the option of centralising all Common Services as a realistic one; however, before terminating the MoU, this needs to be discussed with the other VIC-based organizations within the context of future innovative and practical approaches in line with the decisions of the UN General Assembly. Unless there is any other development in the future, Management is of the opinion that BMS shall continue to be with UNIDO.

108. As the current agreement about the Common Services is advantageous for the other VIC-based organizations, I do not see a realistic chance for negotiations without a termination of the MoU.

B. IAEA sharing of termination indemnity costs for Buildings Management staff

109. On 14 December 1995, the General Conference approved the financial arrangements relating to the voluntary separation of staff. Till mid-1996 UNIDO abolished 25 posts relating to the Buildings Management Service. Nineteen staff members received termination benefits, amounting to AS 4,829,133.50. In accordance with the agreement reached on VIC operating costs, UNIDO claimed by invoice of 11 April 1996 45.5 per cent of this amount from IAEA. IAEA replied that the "Agency does not see any legal grounds that would justify such payments".

110. In January 1997 the Director-General of UNIDO proposed two alternative methods for the settlement of the disagreement. He proposed either (a) to request for a third party legal opinion on the issue from a mutually acceptable international lawyer or legal counsel of another international organization or (b) to resort to arbitration, preferably by appointing a single arbitrator, who is agreeable to both parties. In November 1997 the Director-General of UNIDO again approached the Director General of IAEA. Since UNIDO got no response, Financial Services decided to establish a provision for the doubtful receivable in form of an obligation against 1996-1997 appropriations. Management will continue efforts to settle the dispute.

111. Although UNOV and IAEA have promised to help and participate in common efforts to reduce costs and IAEA has paid its share of the BMS termination costs in the previous staff reduction exercise, this time IAEA has refused to pay its share (US\$ 644,450) of separation indemnities occurred by necessary staff reductions in BMS. In my opinion the case highlights the difficulties arising from contracts concluded between UN organizations, if the contract does not include any provision for the solution of potential disagreements or diverging interpretations.

C. Catering Service

112. In 1989 the participants of the MoU signed the rules of the Catering Service at the VIC establishing this service as a self-sustaining, non-profit-making operation. Under the current contract between UNIDO and the caterer the facilities and the capital equipment are provided free of charge to the latter. In addition, the caterer is not charged for the cost of maintenance, utilities and cleaning. The internal auditor of UNIDO estimated these costs for 1993 amount to US\$ 1.4 million. Thus, the caterer enjoys a considerable subsidy towards his operating costs. These costs are financed from the

regular budget of each organization in the VIC. UNIDO provides the administrative support cost for the management and operation of Catering Services. The current catering contract ends on 31 December 1999.

113. Management points out that, if the operating costs were charged to the operation itself, there would have to be a significant increase in the prices of food and drinks charged to the staff which would have to be reflected in increased staff salaries. Moreover, charging additional costs to the Catering Service would require changing the MoU. The Catering Advisory Committee was requested in August 1996 to assist in specifying what type of services should be provided by the VIC-based organizations, but no results have been achieved till now. The Committee will be asked to re-examine this matter. Furthermore, UNIDO intends to achieve an economic management by preparing a new bidding exercise for the new catering contract.

114. Altogether, the amount of the subsidy by the VIC-located organizations for the Catering Services is significantly high. Therefore, the financial implications of the catering arrangement should be disclosed to UNIDO's donors. Furthermore the amount of the subsidy is not in compliance with the principle of Catering Service as a commercial and self-sustaining operation. A new contractual agreement for the Catering Services should be made before the contract expires. The invitation of tenders for Catering Services at VIC should give the new caterer more financial responsibility. It should provide incentives for efficient management by the caterer. Furthermore he should be obligated to bear the operating costs in order to terminate subsidizing by the organizations.

D. Removal within the VIC

115. The Austrian Government (GOA) intended to provide office space in the VIC for another international organization, the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO). Upon request of GOA to provide space to CTBTO by September 1996 UNIDO moved from Building E to Building D. CTBTO arrived in April 1997.

116. As a result of various consultations between the ambassador of GOA and the Managing Director of Administration, the GOA agreed to reimburse UNIDO for the costs for the actual removal and operating costs for the vacated area during the period September 1996 through March 1997. The amount to be reimbursed totalled US\$ 956,330. However, there was no written agreement.

117. According to Management's information later on GOA refused to take over the costs. However, GOA has not yet confirmed its position in writing. UNIDO will take up the matter at the appropriate level. In case GOA maintains its position UNIDO intends to ask GOA to

support UNIDO in order to receive a reimbursement from CTBTO.

E. Charges of utility costs to the VIC Commissary

118. According to the MoU the operational, maintenance and common service costs of the Commissary should be shared by the participating organizations. In September 1982 the representatives of IAEA and UNIDO agreed that the Commissary should be charged an annual amount which approximates the actual incremental costs of utilities (electricity, heating, cooling, water), garbage removal, maintenance of pavement and parking lots associated with the operation of the Commissary. The estimated amount of US\$ 100,000 is reimbursed to miscellaneous income of IAEA, UNOV and UNIDO according to the cost-sharing ratio.

119. Upon UNIDO's initiative this amount was reviewed in 1991 and 1993 based on available statistics. UNIDO reviewed the calculation of the utility costs of the Commissary again in 1996 and concluded that the total of these costs p. a. amounted to almost US\$ 400,000. In April 1997, a VIC Working Group nominated by the Consultative Committee of Common Services examined the matter. Their report on the Commissary reads as follows: "The recommendation of the consultant to consider adopting a direct charge related to actual use of utilities and related Buildings Management expenditures, instead of the flat rate of US\$ 100,000 per annum for utilities only was considered. As in the case of the catering operation, this item concerns the subsidy of an operation established for the benefit of the staff, and is not specifically related to cost-sharing methodology. Therefore, the Working Group took note that the present system of charging the Commissary US\$ 100,000 per annum against the cost of utilities would be maintained." At its meeting on 14 May 1997, the Consultative Committee of Common Services adopted the Working Group's report on the Commissary.

120. The interoffice memorandum dated 3 April 1982 states clearly that it was designed to charge the Commissary with the *actual* incremental costs of utilities associated with its operation. This interpretation of the interoffice memorandum corresponded to the aim of the operation of the Commissary, i.e. providing employees of the participating organizations at the VIC at cost prices. At present, however, the utility costs of the Commissary are to a great extent supported by the Buildings Management Service. Since the Buildings Management Service is financed from contributions from the participating organizations and these contributions do not have the purpose of supporting the customers of the Commissary, the present practice of supporting the Commissary is not in line with the agreement.

121. Management replied that, in the spirit of rationalizing expenditures and clarifying the cost structure, UNIDO will continue its effort to readjust the

agreement with the IAEA so as to charge the Commissary with the actual costs.

F. Common Printing Services

122. In 1995 my staff audited the Common Printing Services Agreement concluded between UNIDO and IAEA. This contract grants a monopoly to the Common Printing Services (CPS) which results in particular cases in financial disadvantages for UNIDO. The agreement stipulates that UNIDO cannot contract with an external printer except if the IAEA is not able to take care of the job for technical or time reasons. Some printing jobs audited show that outside printers could do the same job as the CPS at lower rates, although the external printer had proved to provide higher quality of printing. Moreover the CPS are not in the position to print on recycled paper, to produce folders or to respond to specific wishes for covers of the publications. As the actual printing requirements are quite different from those when the agreement was concluded twenty years ago, I recommend to review and to renegotiate the Common Printing Services Agreement with the IAEA.

123. Management does not concur with the statement that the Printing Services Agreement constitutes a monopoly. Print jobs with low-roll figures proved to be cheaper if done by CPS. However, Management promised to re-examine the changing printing requirements of the Organization, in particular the sophisticated requirements of the Public Information and the Global Report, within the overall printing job requirements. It agreed that a review of the agreement would be recommended.

124. In my understanding UNIDO is obliged to refer any printing job to CPS first. As the review of the Printing Services Agreement is outstanding, UNIDO is still bound to give its printing jobs to CPS even if an outside printer could provide better quality more cost-effectively.

VIII. TECHNICAL COOPERATION ACTIVITIES

A. Project expenditure and regular budget expenditure

125. Table 9 provides a breakdown of the annual project expenditure for technical cooperation activities executed by UNIDO, by source of financing compared to total expenditures from the General Fund (including programme support costs less regular programme) as reported in the financial statements for the period 1986-1997.

126. The decline of the ratio, which started in 1991, has been stopped. On the one hand the increase is the result of further reduction of general fund expenditures and on the other hand of an increase in technical cooperation activities.

B. UNIDO's field representation

127. The General Conference at its sixth session in 1995 stressed the necessity of delegating authority to the field. At its sixteenth session in 1996 the Industrial Development Board gave special emphasis to the delegation of authority to the field coupled with decentralization of programming and financial authority to UCDs. In April 1997 again the Secretariat proposed "a radical reorientation with regard to the role to be played in the future network of UNIDO field offices" and underlined the need for significant decentralization to the field with "enhanced programme development and funds mobilization functions" as well as strong delegation of authority to UCD offices (IDB/S.7/2). Again, in the introduction to the programme and budgets, 1998-1999, the issue was reiterated (GC.7/21).

Table 9

TECHNICAL COOPERATION ACTIVITIES EXECUTED BY UNIDO

Status of expenditure, 1986-1997

<i>Source of Fund</i>	<i>Project expenditure</i>											
	<i>(In millions of United States dollars)</i>											
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Technical cooperation activities	97.3	95.6	115.5	127.1	154.3	140.8	126.2	121.1	97.5	107.2	89.3	95.8
General fund plus programme support	71.8	73.2	74.0	97.9	97.5	108.0	105.8	115.2	96.4	126.4	92.9	86.7
Ratio TC/GF	1.36	1.31	1.56	1.30	1.58	1.30	1.19	1.05	1.01	0.85	0.96	1.10

128. However not much progress has been made in this direction: On 26 October 1996 UNDP and UNIDO signed an "Annex on Co-ordination Arrangements between UNDP and UNIDO at the Country Level" which supersedes the previous Memorandum of Understanding (MoU) of 1989. This Annex includes a revised definition of the UCD's responsibility: "UCDs will have the function of UNIDO representatives, and will represent UNIDO to governments and other entities". According to similar agreements, other United Nations agencies have introduced their representatives to their host governments. For the time being, UNIDO has not made the above-mentioned request.

129. To my understanding, as the new MoU supersedes the old one, UNDP's Resident Representative (RR) does no longer represent UNIDO in the country of a UCD office. As UNIDO's UCDs have not received the agrément of the Government, they are not more in a position to represent UNIDO. In consequence, in contrast to the aim of delegating authority to the field, UNIDO's position has been weakened.

130. UCDs were not even given the authority to settle matters of minor financial implications.

131. A major concern of donor agencies regarding cooperation with UNIDO is the length of time required for replies. The time-consuming reaching of a decision has often made a project irrelevant by the time it was approved. Budget execution and travel authority are subject to approval from HQ. The status of UCDs and the fact that most decisions have to be referred to HQ contributes to UNIDO's image of a slow and overall bureaucratic Organization. The lack of delegating authority to UCDs to exercise the management function for the operation of the field office contributes to lengthen UNIDO's processing times.

132. Although the necessity for increasingly delegating authority to the field has repeatedly been emphasized, the delegation efforts have not been actively pursued.

133. Management replied that significant progress during the first months of 1998 was made. The issue of cooperation arrangements with UNDP was being pursued. Actions were being taken to accelerate the decentralization of authority. Specifically UCDs would be responsible for certain project formulation and selected implementation, and would have more authority in administrative matters.

C. Administration and management of UCD offices

(i) Communication, Headquarters—UCD offices

134. To ensure coordination and harmonization between activities of UNIDO field staff with those of HQ in Vienna, to provide services of staff at HQ to field staff in the UCD offices and to ensure an adequate channel of communication for UNIDO HQ with host Governments, frequent communications and consultations between HQ and the UCD offices should take place.

135. In order to improve the technical means of communication UNIDO implemented Internet connectivity for HQ and the UCD offices.

136. However, during their field audit my staff learned that despite the improvement of the technical facilities communication deficiencies were continuing:

- C No response of HQ to annual reports elaborated by the UCD;
- C No response of HQ to several proposals concerning country strategy and project-related matters;
- C No chance of discussing common problems of UNIDO Country Directors at the annual meeting of UCDs;
- C No information made available by HQ's Field Representation Support Unit about the revised and signed "Annex on Co-ordination Arrangements

between UNDP and UNIDO at the Country Level” and its consequences;

- C Late information on organizational or personnel changes within HQ;
- C Preparation of project proposals without contacting the UCD in advance.
- C Preparation of success stories without consulting the respective UCD.

137. I am of the opinion that a prerequisite for decentralization is extensive communication between HQ and the UCD offices. As a counterpart of government, the UCD should be well informed on all relevant issues, not only project-related items but also on general topics concerning UNIDO’s country representation and cooperation with UNDP. Rather than a technical problem this is mainly a question of HQ’s understanding of the UCD’s role.

138. I recommend to improve communication between HQ and the UCD offices in order to succeed with the decentralization and to improve the effectiveness of UNIDO’s field representation.

139. Management agreed with the observation and assured that a number of measures had been taken to address the problem. In early 1998 new software had been sent to a number of UCD offices, which enabled them to have direct access to INTRANET and HQ e-mail.

(ii) UCD work plan and staff performance evaluation system (SPES)

140. In mid-July 1996 all UCDs received an interoffice memorandum (IOM) signed by the Director-General asking them to prepare a work plan for the year 1996 and performance objectives in draft on the attached new form within two weeks from receipt. The work plan of the UCD was to be discussed at the field level and with HQ’s staff of other divisions. Although the UCDs had not received this IOM until mid-July the work plan was to be agreed in final form by mid-July at the latest.

141. I am of the opinion that it is not proper management practice to prepare work plans and performance objectives for the current year in the middle of the year concerned. As the UCD’s work plan represents UNIDO’s field activities the work plan should be prepared in close cooperation with HQ’s divisions concerned and this can hardly be done within two weeks. Workplans should be extensively discussed between HQ and the UCD and as a result should represent a coordinated opinion of both.

142. Management accepted the criticism and ensured that work plans for 1998 were properly prepared and monitored. The Director-General had instituted a monthly reporting system. The drastic and many changes

in the field representation programme in the last few years had often made such preparation almost impossible. However, efforts would be made to improve the situation in conjunction with the introduction of performance indicators and targets in UNIDO.

D. Improvement of quality management

143. In spring 1996 UNIDO started an in-house project sponsored by funds of a Member State in order to overcome the constraints of its Quality Assurance Unit that provided technical cooperation services for quality management of development cooperation and for the promotion of related concepts and methods.

144. The project document mentions five outputs comprising a report, a manual, training material and training of UNIDO staff. The smooth implementation of the project encountered some difficulties since parallel to the project the Director-General agreed to integrate the adaptation of the European Model for Business Excellence for the self-assessment of organizational performance. The purpose was to implement a continuous improvement process within a coherent framework based on the achievements of the accelerated reform process. One criteria for using the above mentioned Model was that the criteria utilized are widely accepted at the international level and are used by the European Quality Award granted every year by the European Foundation for Quality Management.

145. However, soon after the Director-General’s decision the Managing Directors’ reluctance to cooperate could be observed. E.g. staff was not allowed to participate, teams for dealing with several criteria were not set up as planned. Therefore, to meet the criteria of the Model, interviews were done by involved staff as well as by a consultant in mid 1997. Besides, management did not nominate staff to become assessors of the Position Report. At that point of time a specific consultant was contracted to assist in the exercise.

146. Further progress was delayed until early 1998 when the new Director-General agreed to the planning and completion of the self assessment exercise and established a cross-organizational team on programme quality.

147. Seven team leaders, including the Head of the Internal Audit Unit (covering two criteria), more than 50 staff members and three costly consultants were directly participating in this exercise during 1997. In addition, some more staff were indirectly involved through workshops and questionnaires. “Self Assessment Guidelines for UNIDO” had been prepared for further use by the relevant teams.

148. In principle, I welcome the target adopted. The certification of quality services, either by the European Foundation for Quality Management or on the basis of ISO 9000, will be likely to enhance the image of UNIDO. However, in respect of the resources required to

complete the exercise, the lack of commitment of top management which resulted in a stop of activity, lack of clarity and demotivation of the relevant staff has to be deplored. The implementation of such a basic decision needs visible leadership especially if signals for proceeding with work are urgently required.

IX. INFORMATION TECHNOLOGY

A. Backlog of EDP application maintenance

149. The system for entitlement review and payment of salaries and allowances for UNIDO and technical co-operation staff was developed by MIS more than 20 years ago. Changes in personnel status are processed by staff members of Financial Services (regular payroll, experts payroll) and sent to MIS for data entry into the computerized payroll system.

150. Control is exercised by the staff of the Payroll Group over the correct capture of the above personnel data to ensure that all data entry and other errors are detected and corrected prior to the payroll processing. Furthermore, staff members undertake subsequent controls by reviewing several lists. This procedure requires a lot of staff time but is necessary within the payroll system to ensure correct payment of the salaries. Some of the entitlements have to be calculated manually which creates additional workload for staff in the Payroll Group.

151. During the first audit my staff found out that there were several outstanding system improvements regarding the regular payroll system. Now, three years later, some of the adjustments have been made. However, there are still pending requests from payroll for further amendments to the computerized system to avoid manual calculations and payments and to reduce monthly worktime of staff in the Regular Payroll group.

152. The only way of avoiding time-consuming manual reviews and payments is to develop a new computerized payroll system which implements automatic controls or to procure an existing computerized payroll system covering all of UNIDO's requirements. As my staff learned from MIS staff the development of an own new computerized payroll system is impossible because of personnel constraints in MIS. Within MIS only one staff member partly deals with payroll matters. To procure an existing computerized system to meet most of UNIDO's requirements is impossible because of the existing financial constraints and the absence of manpower to incorporate UNIDO's special demands, other necessary adjustments and interfaces to other mainframe applications.

153. According to the "Report on UNIDO's Information Technology Strategy" dated 10 December 1996, "For existing mainframe applications, maintenance should be restricted to those tasks essential to keep systems running

or to adjustments or minor enhancements that do not alter the basic systems design, subject to a cost/benefit analysis in terms of time invested and saved." Though necessary maintenance cannot be done, e.g. the "Year-2000-Problem", we learned that it is planned to further reduce MIS staff and the number of consultants mostly dealing with maintenance of existing mainframe applications.

154. The three UN organizations in Vienna use different payroll systems. Within UNOV the former UNIDO payroll system is running without recent improvements. The IAEA has developed a mainframe based computerized payroll system, which is still in use.

155. In my view it is not efficient to use and maintain three different payroll applications with the same legal background (UN Staff Rules and Regulations, same salary scales etc.) within the United Nations organizations at Vienna.

156. In its reply Management pointed out that the UN organizations were striving for a uniform Integrated Management Information System (IMIS). UNIDO will keep the option of joining IMIS open until it can determine whether it proves to be an efficient system.

157. Meanwhile, until a new payroll system has been developed and installed, UNIDO should ensure the maintenance of critical EDP applications.

X. ORGANIZATIONAL MATTERS

A. UNIDO's Geneva Office

158. The UNIDO Geneva Office (the Office) was established on 1 May 1976. It serves as a permanent representation of UNIDO to the United Nations Office in Geneva (UNOG), other Geneva-based agencies of the United Nations system and local authorities. It maintains liaison with Permanent Missions of Member States, especially those accredited to UNIDO however being only present in Geneva, intergovernmental organizations, non-governmental institutions and other organizations and entities represented at Geneva. The objective of the Office used to be described in detail in the programme and budgets of past bienniums.

(i) Justification for the Liaison Office

159. The justification for the UNIDO Liaison Offices in New York and Geneva was questioned several times on various occasions, e.g. in 1986 by a group of experts of certain major contributors examining UNIDO's programmes with a view to preparing the 1988-1989 budget, in 1987 at the PBC meeting, and in 1991 as a general proposal to close the New York and the Geneva Offices.

160. In response to those criticisms the Secretariat normally used to explain the "vital" functions of

coordination and inter-agency cooperation of both offices. In one case additional information was given to justify the cost incurred for maintaining the Geneva Office. On the basis of 50 meetings not serviced by Vienna about US\$ 50,000 were indicated as annual savings on travel and per diem.

(ii) Supervisory function of External Relations Services

161. During the 1997 discussions on the future of UNIDO, HQ requested the Heads of the New York and the Geneva Office respectively to describe, in narrative as well as quantitative terms, the objectives, evolving mandate and functions, the activities of the Offices and the budgetary allocations during the last three biennia.

162. At present the Director of the Office sends monthly reports to Vienna. Topics for which he assumes a follow-up action by HQ are set in italics. In addition to that he reports separately on issues of major interest in order to initiate adequate and timely action by the agency. Little feedback of HQ can be found in the Office.

163. My staff also observed that general instructions on the cooperation of HQ with the Liaison Offices were issued late and have most likely not been disseminated to all relevant staff, e.g. coordination of HQ*s activities with the Liaison Offices.

164. In 1990, the then Director-General pointed out that the limited staff resources of the Liaison Offices made it practically impossible for them to cover three or four meetings the same day as had been requested by staff members of HQ. Therefore HQ should coordinate such activities and ensure that priorities were respected. Furthermore, it was pointed out, that it was the responsibility of the requesting office to prepare briefing material and notes if the Liaison Offices were requested to actively participate in a meeting.

165. The audit team observed that

- C No document on the priority setting of meetings was available in the Office
- C Coordination of activities was not always successful; e.g. the Director of the Office was requested to attend three meetings in the same period
- C Not all staff members notified the Office of forthcoming missions to Geneva
- C In several cases copies of back-to-office mission reports were not transmitted to the Office.

(iii) Cooperation with UN organizations

166. One major task of the Office is to promote and strengthen cooperation with other UN organizations, especially as far as programme design and coordination of complementary work is concerned (*inter alia* ECE, ILO, ITU, UNCTAD, WHO, WTO).

167. However, there have only been few activities in these areas in which the Liaison Office was actively involved or of which it has been informed by HQ.

168. Organizations interviewed concurrently stated that the Office is generally not involved in any substantive activities. Based on traditional contacts, staff in the substantive departments cooperate directly with their counterparts in UNIDO HQ.

(iv) Summary and conclusions

169. The supervisory body at HQ should have been in the position to describe the objectives, evolving mandate, functions and activities of the liaison offices as well as the relevant budgetary allocations rather than to ask the Office for this information.

170. While the Office normally provides "HQ promptly and continuously with information on developments in the UN, its subsidiary bodies and specialized agencies in Geneva that are of relevance to the activities and programmes of UNIDO" (programme and budgets, 1996-1997) HQ does not pay much attention to the information it receives.

171. Coordination and working relationship between Geneva-located organizations and UNIDO are to a large extent channelled through direct contacts between staff members on both sides. The Office does not play an important role in this respect.

172. Inter-agency correspondence regularly by-passes the Office. The Office gets little information on the status of ongoing joint activities as well as on programmes from HQ. Normally HQ*s officials do not inform the Office about the results of meetings and consultations held with agencies located in Geneva.

173. As an important share of communication between the UN system and UNIDO and vice versa somehow circumvents the Office, its objective of providing and maintaining an effective channel of communication with UN, the specialized agencies etc. is somewhat restricted to reporting on different kind of sessions and to disseminating collected information and identified programmes and activities which might be of interest for UNIDO.

174. My staff therefore recommended that the Organization should take a fundamental decision on UNIDO's strategy concerning the maintenance of the Office on the basis of an objective analytical review and evaluation of the function and performance of the Office.

175. At its thirteenth session the Programme and Budget Committee discussed a drastic streamlining of the organizational structure of UNIDO and recommended the closure of the Geneva Liaison Office. The budget for the biennium 1998-1999, prepared on the basis of decision IDB.18/Dec.5, only comprises an office at UN HQ in New York. However, the Geneva office has not been closed yet.

176. Management hold the view that, "albeit to a lesser degree than in the past, the objective of the Geneva office is described in the programme and budgets, 1998-1999" (Programme B.5.). The specific terms of reference, however, would have to be revised. Management intends to consider my recommendations in the light of the restructured UNIDO with new relationships with other organizations and Member States and the new roles to be played by the outposted offices.

177. It is my understanding that Programme B.5. of the Programme Budgets, 1998-1999, relates to the UNIDO office in New York only. Only this office is mentioned there. Compared with the revised programme and budgets, 1996-1997, the resources provided are just sufficient to cover the requirements of the UNIDO office in New York.

B. Committees in UNIDO

178. My staff has reviewed the work of committees and advisory groups in UNIDO. Having noted that the Director-General intends to rationalize committee work, I limit my comments on the main findings:

- C Often it was difficult to collect information on whether a committee was to be categorized as active or passive, its purpose, its composition (actual membership) and the responsible person.
- C Some committees had no significant relation to substantive matters and if so, there was no clear understanding of the purpose.
- C In many cases there were no systematic reviews on whether recommendations of committees had been transformed into further action. A random check on the use of results of committee work indicated that only a limited number of recommendations were followed.

179. All these findings demonstrated a lack of management and a general lack of impact of the committee work on the service of UNIDO.

180. In this respect the creation of further committees should be thoroughly deliberated as to their significance for UNIDO's services. The need for existing committees should be reconsidered.

181. As far as efficiency is concerned some fundamental principles should be adhered to:

- C The number of committee members should be restricted. In our opinion a potential attendance of e.g. 18 or 15 (Inter-Divisional Working Group on Africa and ITMC/ITTC Strategic Planning Subcommittee) does not foster the work of a committee.
- C The purpose of the committee as well as the expected output should be accurately defined in order to avoid lengthy discussions on marginal subjects.
- C It is recommended to fix a time schedule for presenting the results, the termination of the work and the dissolution of the committee.
- C Committee's work is enhanced when discussion focuses on drafts or blueprints prepared by the chairperson. Thus the number of meetings and the duration of the meetings can be reduced.
- C Each meeting should have a time limit, a clear agenda, which has to be respected, should be efficiently chaired and directed, the discussion should be constructive and terminated when arguments are recurring and the minutes should be prepared speedily and be accurate.

182. The utmost interest of committee work should be a substantive output which does not preclude the participation of staff members below the managerial level or alternates.

183. Although the involvement of a staff member should principally be decided by management, the responsibility of staff members concerned is also required. Before accepting a further nomination of a committee, they should decide whether the participation in a multitude of committees is still compatible with their regular duties.

184. Management agreed with my assessment on the work of committees in UNIDO. It was pointed out that in early 1998 the number of committees was reduced to just five in order to eliminate a culture of "management by committee" and strengthen individual managerial responsibility and accountability.

XI. PERSONNEL MATTERS

A. Financial information on the staff costs of substantive divisions of UNIDO

185. Table 10 shows the staff costs of the substantive divisions over the 12-year period from 1986 to 1997 and the output of technical cooperation activities expressed in project expenditure. The evolution of the staff cost share of the substantive departments in the total staff costs of the Organization is also shown in the table.

186. The output ratio, technical cooperation expenditure per US dollar spent on staff costs of substantive divisions,

is rising again. In 1997 the output ratio reached the highest level since 1991.

187. The table also shows that in 1997 the share of staff costs of substantive divisions in the total staff costs figures at 60 per cent. Except for 1994, it is the lowest since 1991.

B. The 1996 staff reduction exercise

188. Financial constraints led UNIDO to introduce another staff separation programme in November 1995. The declared aim of UNIDO was to reduce staff by approximately 26 per cent. Table 11 shows the number of posts and staff to be paid for at the beginning and at the end of the biennium. The table also shows the ongoing staff reduction programme according to the approved budget for the biennium 1998-1999 (GC.7/21).

189. According to table 11, during the biennium under review the number of posts approved was reduced by 23 per cent. While the vacancy rate was at 13.5 per cent in December 1995 it had been brought down to 9.7 per cent as at the end of the biennium.

190. In the course of the staff reduction exercise 152 staff members left the Organization. The total cost amounted US\$ 14.6 million. Thus the average cost per staff member separated was US\$ 96,000.

Table 10

UNIDO

Comparison of staff costs of substantive departments with project expenditure and total staff costs, 1986-1997

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
A. Technical cooperation expenditure (in millions of US\$)	97.3	95.6	115.5	127.1	154.3	140.8	126.2	121.1	97.5	107.2	89.3	95.8
B. Staff costs of substantive departments (in millions of US\$)	31.4	36.4	36.3	40.8	48.2	50.9	53.0	57.7	42.8	57.3	43.5	37.2
C. Output ratio (A:B)	3.17	2.68	3.30	3.28	3.31	2.90	2.56	2.05	2.36	1.87	2.05	2.57
D. Total staff costs (in millions of US\$)	55.0	64.9	64.8	70.1	83.4	87.1	83.8	90.8	76.0	92.4	70.0	61.8
E. Share of B in D (percentage)	57.04	56.05	56.10	58.21	57.79	58.39	63.28	63.53	56.32	62.01	62.09	60.21

Source: Financial statements of the biennium 1996-1997, annex III, table 1; Annual Report of UNIDO, table 11.

Table 11

UNIDO

Staff reduction programme, 1996

Month/Year	Regular Budget		Operational Budget		Total	Total
	Posts approved	Staff on board	Posts approved	Staff on board	Posts approved	Staff on board
December 1995	862.0	780.5	226.0	155.5	1,088.0	936.0
December 1996	686.0	640.0	164.0	143.5	850.0	783.5
December 1997	678.0	617.0	164.0	143.5	842.0	760.5
Budget 1998	562.5		169.0		731.5	
Budget 1999	449.5		169.0		618.5	

Source: Programme and budgets, 1998-1999, Table 5.

C. Women in the Secretariat

191. The General Conference has repeatedly called for efforts to increase the representation of women in the Secretariat, particularly at senior and decision-making levels, and to achieve to the extent possible, and within existing resources, targets for the overall representation in geographical posts by 1993 and 1995 of 25 and 30 per cent respectively.

192. In document IDB.14/8 the Secretariat reported on a significant increase in the proportion of women at the senior Professional level, rising from 7.1 per cent in 1993 to the level of 13.6 per cent (June 1995), which was near the target of 15 per cent of 1995. Nevertheless, it was

195. Notwithstanding that the above-mentioned targets were significantly underachieved, it has especially to be noted that no woman occupies a post at the decision-making level (D-1 or D-2).

196. Management replied that the low representation of women in the Secretariat was a matter of great concern. Concerted efforts were initiated in connection with vacancy announcements advertised. In spite of these efforts, the response was very poor. Only six to ten per cent of the applicants were female; many of the applications did not meet the requirements of the post.

197. I admit that UNIDO faces great difficulties in the recruitment of women. However, I have the impression that recruitment procedures and channels were not always best suited to convince women to work in the Organization. Other UN organizations succeeded, though the applicants had to meet special requirements, to recruit a higher number of women and to promote them to the

noted that it was unlikely to reach the target of 30 per cent overall female representation at the Professional level by the end of 1995.

193. In fact, as at 31 December 1995 the overall representation at the Professional level was at 23.6 per cent. Fifteen women occupied posts at the senior Professional level (P-5 and above) which represented a proportion of 11.9 per cent.

194. One year later, as at 31 December 1996, the representation of women had decreased. The overall representation at the Professional level went down to 22.7 per cent and the proportion of women at the senior Professional level decreased to 11.2 per cent.

senior Professional level and above. As an example, I would like to mention IAEA.

198. Although progress in the representation of women on the senior Professional level in comparison with the situation at the end of 1993 has been achieved, nevertheless further efforts have to be made to ensure that the proportion of women at the senior Professional levels is increased in line with the targets established by the policy-making organs. The new placement and promotion system that was introduced in 1996 has still to prove its effectiveness, since as at 1 April 1997 no changes to the situation as at the end of 1996 could be observed.

XII. OTHER MATTERS

A. Amounts written off, cases of fraud or presumptive fraud, and *ex gratia* payments

199. The Secretariat informed me that the Organization experienced no fraud or presumptive fraud during the biennium 1996-1997.

200. The Organization did not notify me of any write-off cases.

201. No *ex gratia* payments were made.

B. Acknowledgement

I wish to express my appreciation for the cooperation and assistance extended by the Director-General and the staff of UNIDO, in particular, the staff of Financial Services and General Services.

My work has been greatly assisted by the Office of Internal Oversight.

[Signed]

Dr. H. von Wedel

President of the Federal Court of Audit
Germany
External Auditor

Annex I

**CERTIFICATE OF THE EXTERNAL AUDITOR ON THE ACCOUNTS OF THE
UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION AND
OF THE INDUSTRIAL DEVELOPMENT FUND FOR THE FINANCIAL
PERIOD 1996-1997 ENDED 31 DECEMBER 1997**

To the President
of the Industrial Development Board

I have audited the following appended statements, numbered I to IV, properly identified, and relevant schedules of the United Nations Industrial Development Organization and of the Industrial Development Fund for the financial period 1996-1997 ended 31 December 1997. These financial statements and schedules are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, conforming with international standards of auditing, and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. Those standards require that I plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. I have obtained all the information and explanations that I required for the purpose of the audit. As a result of my examination, I certify that, in my opinion:

- (a) The financial statements reflect properly the recorded financial transactions for the biennium ended 31 December 1997 and present fairly, in all material respects, the Organisation's financial position as at 31 December 1997;
- (b) The financial transactions reflected in the statements have been in accordance with the applicable Financial regulations and legislative authority;
- (c) The financial statements have been prepared in accordance with the stated accounting policies and procedures, which were applied on a basis consistent with that of the preceding financial period.

Additional information and comments on the financial statements and this opinion are included in the observations in my long form report.

[Signed]

Dr. H. von Wedel
President of the Federal Court of Audit
Germany
External Auditor

Annex II

**FINANCIAL STATEMENTS FOR THE 24-MONTH PERIOD OF THE BIENNIUM 1996-1997
ENDED 31 DECEMBER 1997**

Certification of financial statements

Director-General's responsibility

The Director-General of the United Nations Industrial Development Organization is responsible for the preparation and integrity of the financial statements. These statements have been prepared in accordance with the United Nations organizations common accounting standards and necessarily include some amounts that are based on management's best estimates and judgement. Financial information used elsewhere is consistent with that in the financial statements. Management considers that the statements present fairly the financial position of the Organization and of funds held in trust by it, the results of their operations and the changes in their financial position.

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

The following appended financial statements, comprising Statements I to IV, relevant Schedules and supporting notes, were properly prepared in accordance with Article X of the Financial Regulations of UNIDO and the United Nations Accounting Standards and are hereby approved.

Carlos Magariños
Director-General

Eric Whiting
Officer-in Charge
Financial Services

Annex III

NOTES TO THE FINANCIAL STATEMENTS

Preface

UNIDO MISSION STATEMENT

UNIDO is the specialist agency of the United Nations dedicated to promoting sustainable industrial development in countries with developing and transition economies.

UNIDO harnesses the joint forces of government and the private sector to foster competitive industrial production, develop international industrial partnerships and promote socially equitable and environmentally friendly industrial development.

UNIDO is the only worldwide organization dealing with industry from a development perspective. Its services are non-profit, neutral and specialized. Its staff are highly qualified with the widest range and depth of required industrial expertise. UNIDO acts as a catalyst to help generate national economic wealth and raise industrial capacity through its roles as a worldwide forum for industrial development and as a provider of technical cooperation services.

UNIDO's ultimate goal is to create a better life for people by laying the industrial foundations for long-term prosperity and economic strength.

Note 1. Summary of significant accounting policies

The following are the significant accounting policies of UNIDO:

(a) UNIDO's accounts are maintained in accordance with the Financial Regulations of UNIDO as adopted by the General Conference, the rules formulated thereunder, administrative instructions in force as at the date of conversion of UNIDO into a specialized agency, and in conformity with generally accepted government accounting principles. UNIDO follows the accounting standards as approved by the Consultative Committee on Administrative Questions on behalf of the Administrative Committee on Coordination at its eighty-third session and requested by General Assembly resolution 48/216, and the financial statements, of which these notes form an integral part, are presented in accordance with those standards, as shown below:

- (i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons.
- (ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies.
- (iii) Financial statements should include clear and concise disclosure of all significant accounting policies which have been used.
- (iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. The policies should normally be disclosed in one place.
- (v) Financial statements should show corresponding figures for the preceding period. However, for the first financial period in which the revised formats as approved by the Administrative Committee on Coordination are applied, the presentation of corresponding figures for the preceding period is not obligatory.
- (vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The UNIDO financial statements are prepared on the historical cost basis of accounting and have not

been adjusted to reflect the effects of changing prices for goods and services.

(c) Fund accounting. The UNIDO accounts are maintained on a "fund accounting" basis. Separate funds for general or special purposes may be established by the General Conference or the Director-General. Each fund is maintained as a distinct financial and accounting entity, with a separate self-balancing double-entry group of accounts.

(d) The fiscal period of the Organization is a biennium and consists of two consecutive calendar years.

(e) The income, expenditure, assets and liabilities are recognized on the accrual basis of accounting except for trust funds where income is recorded upon receipt of the contribution only.

(f) Translation of currencies. The accounts of the Organization are presented in United States dollars. Transactions in other currencies are translated into United States dollars at the time of the transaction at rates of exchange established by the United Nations. In respect of such currencies, the financial statements, prepared at such intervals as may be prescribed, reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than United States dollars, translated at the United Nations rates of exchange in effect as at the date of the statements.

(g) Assessed contributions. In accordance with financial regulation 5.6, 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.

(h) Pledged contributions. Pledges are recorded as income on the basis of a written commitment by a prospective donor to pay a monetary contribution at a specified time or times. Pledges received for future years are recorded as deferred income. Advances received in payment of pledges for future years are classified as liabilities of the fund.

(i) Contributions in kind received or receivable and the value thereof are not accounted for but disclosed in the notes to the financial statements.

(j) Funds on deposit in interest-bearing bank accounts, certificates of deposit, time deposits and call accounts are shown in the statements of assets and liabilities as cash.

(k) Deferred charges.

(i) Deferred charges comprise expenditure items that are not properly chargeable in the current fiscal period and that will be charged as expenditure in a subsequent fiscal period.

- (ii) For balance-sheet statement purposes only, that portion of the education grant advance which is assumed to pertain to the scholastic year completed as at the date of the financial statement is shown under deferred charges. The full amount of the advance is maintained in the accounts receivable from staff members until such time as the staff member produces the required proof of entitlement to the education grant, at which time the budgetary account is charged and the advance recovered.

(l) Fixed assets. Furniture, equipment, other non-expendables and leasehold improvements are not included in the assets of the Organization. Acquisitions are charged against budgetary accounts in the year of purchase.

(m) Commitments approved for future fiscal periods that are necessary in the interests of UNIDO, in accordance with financial rule 109.6, are disclosed in the notes to the financial statements of the respective fund. Such commitments are normally restricted to administrative requirements of a continuing nature and to other contracts or legal obligations where long lead times are required for delivery.

(n) No provision is made in the General Fund for repatriation grant entitlements or to meet contingencies under appendix D to the Staff Rules of UNIDO as funds are provided for in the budget appropriations. However, provision is made to meet repatriation grant entitlements and contingency liabilities for compensation payments under appendix D for personnel financed by technical cooperation other than UNDP and general trust funds and are calculated on the basis of one per cent of net base pay.

(o) Surpluses due to Member States are funds available for credit to Member States arising from unobligated balances of appropriations, savings in the liquidation of obligations for prior periods and contributions from new Member States. In accordance with financial regulation 4.2 (b) as amended, the amount standing to the credit of Member States is reduced by the amount of contributions remaining unpaid. The balance of the surplus account is to be offset against future assessments in accordance with financial regulation 5.2 (d), unless the General Conference decides otherwise.

(p) Other income.

- (i) The net income realized from revenue-producing activities is reported as other income.
- (ii) Refunds of expenditures charged to prior fiscal periods are credited to miscellaneous income.

(iii) Moneys accepted in respect of which no purpose is specified have been treated as miscellaneous income.

(iv) Gain/loss on exchange arises from transactions in currencies other than United States dollars and revaluation of assets and liabilities held in local currencies.

(v) Proceeds from the sale of surplus property are credited to the miscellaneous income of the respective funds.

(vi) Net income from sales of publications is reported as other income. Gross income and related costs are disclosed in the note to the General Fund.

(q) Technical cooperation accounts.

(i) The appropriations for technical cooperation programmes of the regular budget are administered in accordance with the Financial Regulations of UNIDO.

(ii) Allocation income—UNDP. The figures for allocation income from UNDP and UNDP trust funds are the same as reported for total expenditure in line with UNDP procedures, which require that allocations be adjusted to equal actual expenditure.

(iii) Contributions income—trust funds. Contributions from Governments or other donors are recorded upon receipt of the contribution.

(iv) Interest and miscellaneous income. Interest and miscellaneous income arising from the Regular Programme of Technical Cooperation are credited to the General Fund. Interest and miscellaneous income arising from UNDP activities are credited to the operating fund account maintained with that organization. Interest and miscellaneous income for technical cooperation trust funds and the Industrial Development Fund are credited to the fund concerned.

(v) The criteria for recording and reporting unliquidated obligations against the current biennium for the Regular Programme of Technical Cooperation are the same as those for the regular budget. For all other technical cooperation fund sources obligations may be reported as expenditure of the current year on the basis of the following criteria:

Personnel services

The cost of salaries and related expenses corresponding to services rendered within the calendar year. Personnel services, in this context, includes temporary assistance and overtime as well as consultants who have subscribed to Special Service Agreements. However, when the remuneration of the consultant is expressed as a lump sum rather than a sum per period worked, the full cost of the contract may be treated as an obligation of the current year.

Supplies and equipment

The full cost of contracts or purchase orders entered into prior to the end of the year, whether or not delivery has been effected, as long as there is budgetary provision in the current period.

Subcontracts

An obligation can be sustained on the basis of the payment schedule included in the signed contract with the contractor. Where no payment schedule exists, the basis is the estimated timing of payments.

Fellowships

The cost of the fellowship from the date of commencement of study to completion of study or 31 December, whichever is earlier. The fellow must have been placed, i.e. the fellowship awarded to a named individual and the place of study, the course of study and the duration of the study established and the recipient Government notified.

Travel

The full cost of travel, including the cost of transportation, subsistence allowances and other incidental expenses can be sustained if travel started prior to the end of the calendar year.

Group training

The cost of activities held in the current year. In the case of activities beginning in one year and continuing into the next, the full cost of the activity should be charged to the current year.

- (vi) Unliquidated obligations for the current period in respect of all technical cooperation activities other than the regular budget

remain valid for 12 months following the end of the year, rather than the biennium, to which they relate. However, in accordance with UNDP reporting requirements, executing agencies may retain unliquidated obligations beyond 12 months when a firm liability to pay still exists; such liabilities are reported as accounts payable in the financial statements. Savings in the liquidation of prior period obligations are credited to individual projects as a reduction of current period expenditure in accordance with UNDP reporting requirements. The UNDP requirements are also applied in the case of the Industrial Development Fund and trust funds.

- (vii) Commitments are disclosed in the notes to the financial statements of the respective fund rather than being reported as a separate liability item as was previously the practice.

- (viii) A system of average costing is used for UNDP projects whereby those elements of experts' actual costs which are unique to the individual expert are charged to UNDP projects at average cost, calculated by apportioning those costs over all UNDP projects in respect of which expert-months have been delivered in the current period.

(r) Trust funds. Director-General's bulletin UNIDO/DG/B.18/Rev.1 dated 15 May 1992 sets out revised policies for establishing and managing trust funds with effect from 26 May 1992. Extrabudgetary funds provided to reimburse the Organization for the use of its facilities are excluded from the provisions of UNIDO/DG/B.18/Rev.1.

- (s) Special account for programme support costs.

- (i) Reimbursement for programme support costs is provided for in respect of extrabudgetary technical cooperation activities. Reimbursement is calculated as a percentage of programme resources expended.

- (ii) Under the UNDP successor arrangements for agency support services for programme and policy development (SPPD)—previously TSS1—as well as support for technical services (STS)—previously TSS2—are reimbursed at standard unit cost per work-month, whereas for administrative and operational services reimbursement is calculated in 1996 at rates applicable to specific clusters of services and at the rate of 10% for all services in 1997.

(iii) In the financial statements of the Organization, the special account for programme support costs is shown separately from the inter-organization funds, from which its income derives.

(iv) Unliquidated obligations in respect of the special account for programme support costs are accounted for on the same basis as for the regular budget.

(t) *Ex gratia* payments made in accordance with financial rule 109.13 are reported in the notes to the financial statements of the respective fund pursuant to financial regulation 9.3.

Note 2. General Fund and Working Capital Fund

(a) Assessed contributions

(i) The General Conference approved an amount of \$180,899,500 for the regular budget for 1996-1997 on the basis of an exchange rate of US\$1 = AS 12.90 (GC.6/Dec.11) to be financed from contributions by Member States and the mandatory payment due from the United States of America. This amount has been restated to \$203,762,200 after applying the adjustment formula shown in resolution GC.6/Dec.11 to take account of the average exchange rate actually experienced during the biennium 1996-1997 (US\$1 = AS 11.28). The revised appropriations for 1996-1997 submitted to the General Conference are shown in Statement IV of the financial statements.

(ii) Due to the fact that Austrian schilling contributions were converted to United States dollars at the exchange rate in effect at the time of receipt, and to the fact that Austrian

schilling contributions unpaid at 31 December 1997 were revalued at the rate in effect at that date (US\$1 = AS12.30), the value of the assessment decreased by \$1,567,000 to \$202,195,200.

(b) Revenue-producing activities

Gross revenue from the sale of UNIDO publications in the amount of \$274,851 was reduced to \$198,072 by costs for sales promotion activities and other expenses.

(c) Currency exchange adjustments

As a result of fluctuations in the exchange rate between the Austrian schilling and the United States dollar, a net loss of \$2,520,457 was realized on funds held in Austrian schillings.

(d) Prior biennium adjustments

Pursuant to decision IDB.7/Dec.7, arrears of assessed contributions in Austrian schillings for 1994-1995 were valued at the exchange rate of US\$1 = AS 10.64, being the average exchange rate for the three-year period covering the biennium 1994-1995 and the 12-month period following that biennium and ending on 31 December 1996.

Prior biennium adjustments of \$3,789,977 represent a decrease in the value of Austrian schilling contributions, 1994-1995 of Member States and new Member States.

(e) Savings on or cancellation of obligations from the prior biennium

The following is an analysis, expressed in millions of United States dollars, of savings on liquidation of 1994-1995 obligations and of the status of appropriations for that biennium as at 31 December 1996:

<u>Major Programme</u>	<u>Balance of appropriations as at 31 December 1995</u>	<u>Savings on liquidation of obligations in 1996</u>	<u>Balance of appropriations as at 31 December 1996</u>
Policy-making Organs	1.6	0.3	1.9
General Management	(1.2)	0.4	(0.8)
Country Strategy and Programme Development		0.6	0.6
Mobilization and Management of Financial Resources	0.3	0.1	0.4
Information and Research	1.6	0.3	1.9
Human Resource, Enterprise and Private Sector Development	0.9	0.1	1.0
Industrial Sectors and Environment	4.6	0.2	4.8
Investment and Technology Promotion	1.0	0.2	1.2
Common Programmes	3.3	1.1	4.4
Operational Support Services	(0.4)	0.2	(0.2)
Joint and Common Services	9.9	1.0	10.9
Administration	<u>2.3</u>	<u>0.1</u>	<u>2.4</u>
Total A	23.9	4.6	28.5
	(Excess) shortfall over approved estimate	(Excess) shortfall accrued income	(Excess) shortfall over approved estimates
Income	<u>(3.1)</u>	<u>(0.7)</u>	<u>(3.8)</u>
Total B	<u>(3.1)</u>	<u>(0.7)</u>	<u>(3.8)</u>
Total A - B	<u>27.0</u>	<u>5.3</u>	<u>32.3</u>

(f) **Accounts receivable—other**

The following table is an aged analysis of other accounts receivable, expressed in millions of United States dollars as at 31 December 1997.

Amounts due from Governments for more than one year relate to the Organization's claim submitted to the Government of the United States of America in respect of United States income tax reimbursed to UNIDO staff members in 1996 under the tax reimbursement agreement.

	<u>Less than one year</u>	<u>More than one year</u>	<u>Total</u>
Governments	0.5	0.4	0.9
Staff members	1.2	-	1.2
Specialized agencies	5.0	0.6	5.6
Income tax recoverable	0.9	-	0.9
Deferred charges	0.6	-	0.6
Other	<u>0.2</u>	-	<u>0.2</u>
Total accounts receivable—other	<u>8.4</u>	1.0	<u>9.4</u>

Amounts due from specialized agencies for more than one year relate to the Organization's claim submitted to the International Atomic Energy Agency under the cost sharing agreement for termination indemnity costs for Buildings Management staff separated during the 1995 staff reduction exercise. A provision for a possible write-off of this receivable is included in the obligations against 1996-1997 appropriations.

UNIDO has entered into incentive agreements with international airlines and received \$164,188 therefrom during the biennium 1996-1997. The amounts due to the Organization under these agreements for 1997 were still unknown at the time of preparation of the financial statements.

(g) Contributions received in advance

Contributions of varying amounts, totalling \$0.6 million, were received from Member States for the biennium 1998-1999.

(h) Borrowings

At the time UNIDO became a specialized agency an interest-free loan of \$16,000,000 was received from the United Nations. The loan is repayable at the rate of \$1,000,000 a year, commencing in 1990.

(i) Accounts payable—other

The following table is an analysis of the accounts payable, expressed in millions of United States dollars, as at 31 December 1997:

Staff members	0.6
Vendors	1.8
Repatriation grants	0.1
Other	<u>1.3</u>
Total accounts payable—other	<u>3.8</u>

(j) Other funds and special accounts

United States income tax in the amount of \$950,490 reimbursed to staff members prior to the effective date of the tax reimbursement agreement was claimed from the Government of the United States of America but not reimbursed. After the withdrawal of the United States of America and after the termination of the tax reimbursement agreement effective 31 December 1996, this amount was offset against the provision established in 1993 against 1992-1993 appropriations.

(k) Working Capital Fund

(i) The amount of the Fund was set by the General Conference at \$9 million (GC.2/Dec.27). For the biennium 1996-1997 the level of the Working Capital Fund was reduced to \$6,750,000 (GC.6/Dec.16). The advances received from the United States of America were applied against arrears of contributions receivable from that Member State. To finance budgetary appropriations pending the receipt of contributions, a total of \$6,710,896 was advanced to the General Fund as at 31 December 1997.

(ii) The excess of the balance of the Fund over its authorized level in the amount of \$12,622 represents contributions assessed to new/withdrawing Member States which will be applied against future assessments.

(l) Surplus due to Member States

Following the United Nations' common accounting standards and the recommendation of the External Auditor, for the first time in its history UNIDO established a provision for the delay in the collection of assessed contributions. The provision comprises total arrears of contributions receivable from Member States and new Member States at balance sheet date.

The following is an analysis of the surpluses due to Member States, expressed in millions of United States dollars after application of the provision:

	Surplus	Disposal of surpluses	Surpluses applied to assessments	Provisions for delays in the collection of contributions	Surpluses due to Member States	Remarks
1996-1997 (provisional)	37.8			47.1	(9.3)	
1994-1995 (GC.7/Dec.17)	31.5	13.9		48.3	(30.7)	
1992-1993 (GC.6/Dec.15)	14.7	9.5	1.4	2.5	1.3	
1990-1991	8.7			1.3	7.4	Retained—GC.5/Dec.14
1988-1989	6.5			0.2	6.3	Retained—GC.4/Dec.15
1986-1987 (GC4/Dec. 15)	4.3	4.3				
	103.5	27.7	1.4	99.4	(25.0)	
Contributions from new Member States	1.3		0.4	0.5	0.4	
Total	104.8	27.7	1.8	99.9	(24.6)	

(m) **Separation indemnity reserves**

Pursuant to decision GC.6/Dec.15, paragraph (e), the amount of \$9,546,732 representing the balance of appropriations for the biennium 1992-1993 which has been paid in was transferred to a separation indemnity reserve in 1995. The reserve has effectively been reduced to \$1,690,630 by payments made in 1995 (\$ 791,164) and during the biennium 1996-1997(\$ 7,064,938). Pursuant to decision GC.7/Dec.17 the amount of \$ 13.9 million was transferred from the unutilized 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.

(n) Long-term contracts awarded for the operation of the VIC are not reported as commitments as they may be terminated at any time without penalty.

(o) **Non-expendable equipment**

The following table shows the non-expendable equipment, at cost, expressed in millions of United States dollars, according to the cumulative inventory records of UNIDO as at 31 December 1997. In accordance with UNIDO accounting policies, non-expendable equipment is not included in the fixed assets of the Organization but is charged against the appropriations when acquired. The minimum dollar value per item of non-expendable property is \$1,500.

Balance as at 1 January 1996 15.4

Add: Acquisitions during 1996-1997 2.2
Deduct: Disposals during 1996-1997 3.7

Balance as at 31 December 1997 13.9

(p) **Contingent liability for end-of-service payment to staff**

In accordance with the decision taken by the Panel of External Auditors in 1989 at Manila, UNIDO calculated the amounts required to cover the estimated costs of contingency liabilities for end-of-service payment as at 31 December 1997.

In line with United Nations accounting standards and contrary to previous practice liabilities for end of service payments comprise end of service allowance, repatriation grant and compensation for accrued annual leave. The valuation is based on average cost of staff separating during the biennium 1996-1997.

They are estimated to be:

Regular budget \$21.5 million
Operational budget \$ 5.0 million

Post retirement benefits are excluded as no actuarial estimate is available.

It should be noted that no budgetary provision has been made, except that in the case of the operational budget as reflected in Statement II and note 3(c) (operating reserve) there is a contingency reserve of \$4.3 million which was effectively reduced to \$4.2 million by negative fund balances.

(q) **Contingent liability to the United Nations Joint Staff Pension Fund**

Pursuant to Article 26(a) of the Regulations and Rules of the United Nations Joint Staff Pension Fund, member organizations are obliged to pay in the sum necessary to make good the deficiency in the event that the actuarial valuation of the Fund shows that its assets may not be sufficient to meet its liabilities under these regulations. The United Nations Joint Staff Pension Fund Secretariat is to determine the potential liability of each member organization. In the report of the twenty-third actuarial valuation of the United Nations Joint Staff Pension Fund, the Consulting Actuary has assessed the actuarial sufficiency of the Fund. There is no requirement for deficiency payments under Article 26 of the Regulations of the Fund as of 31 December 1995. The actuarial valuation is updated in 1998.

(r) **After-service health insurance**

Staff members (their spouses, dependent children or survivors) retiring from service under the Pension Fund Regulations at age 55 or later, are eligible for after-service health insurance coverage after having been a participant in a contributory health insurance scheme of the common system for at least 10 years. The same applies to staff members receiving compensation for disability under Appendix D to the Staff Rules. Costs of participation in this scheme are borne on the basis of joint contributions by UNIDO and the participants concerned.

No actuarial study has been undertaken to establish the present level of unfunded liabilities. During the biennium 1996-1997 the organization's contribution to the scheme amounted to US\$ 2,722,366 including an obligation of US\$ 1,000,000 for amounts due to the United Nations for former UNIDO staff members insured in the United Nations insurance plan for the period 1986 to 1994.

(s) **Contributions in kind**

Contributions in kind estimated at \$304,100 were received from Member States in support of the UNIDO field service, \$48,900 in support of travel of staff and \$130,500 in support of promotional activities.

(t) **Common Fund for Major Repairs and Replacements**

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 replacements 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. This agreement has also applied to UNIDO since 1986 when it became a specialized agency. The Fund is administered by the Director of General Services of UNIDO through a joint committee. Annual financial statements are prepared by UNIDO and audited by UNIDO Office of Internal Oversight. The liability of each of the three VIC-located 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 is liable to pay the balance exceeding the combined limit of \$900,000 established for the three United Nations organizations.

The Fund balance as at 31 December 1997 was \$2,411,410.

Note 3. Other headquarters funds

(a) Funds reported under this heading comprise the special account for programme support costs and the Computer Model for Feasibility Analysis and Reporting (COMFAR).

(b) **Net excess of income over expenditure**

The following is an analysis, expressed in United States dollars, of income and expenditure during the biennium 1996-1997 for the funds reported under this heading.

	<u>Special account for programme support costs</u>	<u>Computer model for feasibility analysis and reporting</u>	<u>Total</u>
Income	25,342,579	1,012,660	26,355,239
Expenditure	<u>25,054,337</u>	<u>927,075</u>	<u>25,981,412</u>
Net excess of income over expenditure	<u>288,242</u>	<u>85,585</u>	<u>373,827</u>

(c) **Operating reserve**

An operating reserve, established in respect of the special account for programme support costs in accordance with PBC conclusion 1989/4 at \$5,504,190 was reduced to \$4,300,000 in accordance with Board decision IDB.14/Dec.12. The reserve was effectively reduced by the negative fund balances of \$74,739 to \$4,225,261.

(d) **Contributions in kind**

Contributions in kind estimated at \$314,000 were received from Member States in support of the UNIDO field service and \$84,000 in support of personnel by recruitment under non-reimbursable loan arrangements.

(e) One *ex gratia* payment in the amount of \$12,120 was approved by the Director-General and charged to the special account for programme support costs.

Note 4. Technical cooperation

(a) Technical cooperation activities reported under this heading comprise activities executed by UNIDO with funds provided through the Industrial Development Fund, trust funds and inter-organization agreements with UNDP and other organizations.

(b) **Transfers to reserves**

This represents the charge to projects in respect of the provision for compensation payments referred to in note 1(n).

(c) Of the \$160,345,089 cash balance, the equivalent of \$791,947 is held in currencies classified as non-convertible, as follows:

Trust funds	102,062
Industrial Development Fund	<u>689,885</u>
Total non-convertible currencies	<u>791,947</u>

(d) **Accounts receivable—other**

The following table is an aged analysis of other accounts receivable, expressed in millions of United States dollars, as at 31 December 1997:

	<u>Less than one year</u>	<u>More than one year</u>	<u>Total</u>
Staff members	0.3	-	0.3
Specialized agencies	0.1	0.1	0.2
Other	<u>1.6</u>	-	<u>1.6</u>
Total accounts receivable	<u>2.0</u>	<u>0.1</u>	<u>2.1</u>

(e) **Other assets**

The table below provides an analysis of the amount shown as other assets, expressed in millions of United States dollars, as at 31 December 1997:

IOV charges pending clearance	5.8
Other	<u>0.3</u>
Total other assets	<u>6.1</u>

(f) **Voluntary contributions receivable,
advances and other liabilities**

The balance of pledged contributions receivable since the inception of the Industrial Development Fund including balances brought forward from UNIDF and pledges for 1998 and future years is \$46,767,330. Advances of \$8,336,043 were received in excess of special purpose pledges.

(g) **Accounts payable—other**

The following table is an analysis of other accounts payable, expressed in millions of United States dollars as at 31 December 1997:

Staff members	0.3
Specialized agencies	1.1
Repatriation grants	1.0
Prior years' obligations	4.3
Other	<u>2.6</u>
Total accounts payable	9.3

(h) **Operating reserves**

The Industrial Development Board, in decision IDB.2/Dec.7, authorized the freezing of the operational reserve of the Industrial Development Fund at \$550,000.

(i) Commitments, representing legal obligations for which disbursements will be made in future bienniums, were entered into prior to 31 December 1997, as follows (expressed in millions of United States dollars):

Industrial Development Fund	15.5
Trust funds	1.5
Inter-organization arrangements	<u>2.4</u>
	<u>19.4</u>

(j) Excess of expenditure over funds received for projects financed under the special purpose segment of the IDF in the amount of \$99,415 was absorbed by the general purpose pool of the fund.

(k) *Ex gratia* payments in the amount of \$16,700 in respect of the Industrial Development Fund and \$32,450 in respect of trust funds were approved by the Director-General and charged to the respective projects in agreement with donors.

(l) Pursuant to the memorandum of understanding between UNIDO and UNDP dated April 1989 concerning

the integration of the UNIDO field service within the UNDP field office, UNDP provided resources in the amount of \$5,943,817 in support of the UNIDO Country Director programme during the biennium 1996-1997.

(m) Contributions in kind estimated at \$ 133,400 were received from Member States in support of UNIDO project offices, \$ 53,100 in support of project travel, \$ 672,100 in support of promotional activities and \$ 502,600 in support of personnel by recruitment under non-reimbursable loan arrangements.

(n) In agreement with the External Auditor it was decided to report allocations for projects financed by UNDP under the heading "Funds received under inter-organization agreements", rather than under "Allocations from other funds". Comparative amounts for the biennium 1994-1995 are adjusted accordingly.

Note 5. Self-liquidating commercial activities (annex I)

VIC Catering Services

Contingency liabilities for termination benefits and indemnities amount to \$395,763. Non-expendable equipment used by the VIC Catering Services has been purchased by UNIDO. According to cumulative inventory records its value amounts to \$2,089,361. In accordance with agreements regarding the operation of the VIC, 68.4 per cent of the total value was recovered from other agencies when acquired during the period 1979-1995, 73.11 and 74.25 per cent when acquired during the years 1996 and 1997 respectively.

Annex ii
TECHNICAL COOPERATION ACTIVITIES EXECUTED BY UNIDO

Table 1. Combined statement of income and expenditure and changes in reserves and fund balances for the biennium 1996-1997
(In thousands of United States dollars)

	Regular Programme	Industrial Development Fund	Trust funds	Inter- organization arrangements	Total 1996-1997
INCOME					
Assessed contributions					
Voluntary contributions		116,707.2	21,699.8		138,407.0
Other income					
Funds received under inter- organization arrangements				59,565.3	59,565.3
Allocations from other funds	10,284.9				10,284.9
Interest income		9,749.0	4,609.6		14,358.6
Currency exchange adjustments		(3,429.1)	(1,116.7)		(4,545.8)
Miscellaneous		(60.2)	(39.5)		(99.7)
TOTAL INCOME	10,284.9	122,966.9	25,153.2	59,565.3	217,970.3
EXPENDITURE					
Salaries and common staff costs	6,259.6	27,143.1	18,833.6	25,425.2	77,661.5
Contractual services	721.1	44,663.1	2,579.5	3,016.8	50,980.5
Operational expenses	638.6	3,311.8	1,084.1	2,727.5	7,762.0
Acquisitions	743.8	17,384.0	2,104.9	14,656.1	34,888.8
Fellowships	1,921.8	4,387.8	1,707.0	5,797.5	13,814.1
Programme support costs		12,241.7	2,954.4	8,029.2	23,225.3
TOTAL EXPENDITURE	10,284.9	109,131.5 (a)	29,263.5 (b)	59,652.3 (c)	208,332.2
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE					
		13,835.4	(4,110.3)	(87.0)	9,638.1
Prior biennium adjustments				(15.5)	(15.5)
Provision for delays in collection of contributions					
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE					
		13,835.4	(4,110.3)	(102.5)	9,622.6
Savings on or cancellation of prior biennium's obligations					
Transfers to reserves		158.7	69.6		228.3
Transfers from reserves					
Transfers to/from other funds					
Credits to Member States					
Other adjustments to reserves and fund balances					
Reserves and fund balances, beginning of biennium		40,605.6	34,728.5	136.7	75,470.8
RESERVES AND FUND BALANCES, END OF BIENNIUM		54,599.7	30,687.8	34.2	85,321.7

References:-

- (a) - Annex II, table 3
- (b) - Annex II, table 4
- (c) - Annex II, table 5

Annex IV
OPERATING FUNDS
UNDP and UNDP trust funds

[UNDP]

[UN fund for science and tech.]

[united nations capital development fund]

[un dev. fund for women]

[un population fund]

[global env. facility]