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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 2002-2003

Financial performance report for the biennium 2002-2003

Submitted by the Director-General

Reports on the utilization of financial resources for the biennium 2002-2003 for the regular and operational budgets.

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V.04-56068 (E)

Introduction

1. In its conclusion 1987/19, paragraph (j), the Programme and Budget Committee requested the Director-General to submit each year to the Industrial Development Board through the Committee a clear and detailed financial performance report itemizing the utilization of financial resources. The present document presents a comparison for the biennium 2002-2003 of the budget estimates in terms of appropriations and income with actual expenditures and income. The information is provided for both the regular and operational budgets.

I. REGULAR BUDGET

A. Budget estimates for the biennium

2. The budget estimates for the biennium 2002-2003 approved by the General Conference in decision GC.9/Dec.17 consisted of gross expenditure of €137,922,300, to be financed from assessed contributions in the amount of €133,689,800 and other income of €4,232,500.

3. The present document thus presents the financial performance report on the basis of the programme and budgets for 2002-2003, as contained in document IDB.24/3-PBC.17/3, approved in General Conference decision GC.9/Dec.17 and assessed on Member States.

B. Assessed contribution income for 2002-2003

4. The financial implementation of the approved programme and budgets is dependent on the actual level of cash resources available during the biennium. The source of financing of the regular budget is the assessed contributions of Member States. Assessed contributions for the biennium 2002-2003 paid to the Organization as compared with the amounts assessed in accordance with General Conference decision GC.9/Dec.17 are as follows:

	Millions of euros
Assessed contributions receivable	133.7[a]
Assessed contributions received	124.3
Shortfall in collections	9.4 (7.0%)

[a] See document IDB.29/3-PBC.20/3, annex IV, Notes to the financial statements, note 2 (a).

C. Comparison of budget with actual expenditure and income for 2002-2003

5. A comparison of actual expenditure and income with the approved budget for the biennium is presented below:

Regular budget
(Millions of euros)

	Budget estimates	Actuals 2002-2003	Under-utilization	%
Expenditure	137.9	128.1	9.8	7.1
Income	4.2	1.6	2.6	61.9
Net	133.7	126.5	7.2	5.4

6. Comparisons of budget estimates with actual expenditure and income by major programme and major object of expenditure are presented in tables 1 and 2 respectively. Explanations of underutilization by major programme and major object of expenditure are provided in the following paragraphs.

D. Underutilization of the budget

7. The net underutilization of the regular budget of €7.2 million (5.4 per cent) comprised an under-expenditure on appropriations of €9.8 million (7.1 per cent) and a shortfall in income of €2.6 million (62 per cent). The major factor contributing to underutilization was the lack of sufficient cash resources throughout the biennium to implement the budget due to non- or late payment of assessed contributions. Savings resulted from delayed recruitment of staff and reduction in expenditure levels under travel, language and documentation services, printing, general operating expenses and other items mainly relating to joint and common services.

E. Financial implementation by major programme

8. Most major programmes were affected by the overall underutilization of the regular budget for the reasons described in paragraph 7 above.

9. Major Programme A (Governing Bodies) did not spend €0.5 million out of the approved budget, mainly due to savings resulting from reduced costs of documentation.

10. A cost overrun of 16.3 per cent (€1.6 million) under Major Programme B (General Management) above the approved budget estimate was the consequence of transferring certain budgeted functions to this major programme from other programmes, which required suitable human resources and thus €1.2 million additional staff costs. These functions, many of which were of a temporary nature, included special adviser positions on various strategic matters and the production of UNIDO flagship publications, which was budgeted under Major Programme C. For the same reason, consultancy funds had to be used above the originally estimated level (€0.5 million additional expenditure). The increased requirements had been financed through reduced expenditures in other major programmes.

11. Major Programme C (Strengthening of Industrial Capacities) did not spend €5.6 million (15.1 per cent) of the originally approved budget. Significant savings arose from a higher-than-budgeted vacancy rate (€2.0 million), reduced utilization of consultancy funds (€0.8 million) and savings on expert group meetings (€0.6 million). In addition, savings in the costs of documents processing (€0.3 million), information technology (€0.3 million), supplies (€0.1 million), travel (€0.2 million) and staff training (€0.2 million) all contributed to the reduced level of implementation under this major programme. In addition, Industrial Development Decade for Africa (IDDA) supplementary activities in the amount of some €1.1 million were implemented under Major Programme D (Cleaner and Sustainable Industrial Development) instead of Major Programme C due to changes in priorities.

12. Major Programme D was implemented slightly above the level of the original budget, incurring an overexpenditure of €0.6 million (2.9 per cent). The additional costs were attributable to higher-than-budgeted staff costs (€0.3 million) and the redeployment of IDDA supplementary resources from Major Programme C. The overexpenditure was mainly offset by savings in other areas, including consultancies, expert group meetings, travel and printing.

13. Major Programme E (Regional Programme) spent €4.5 million (13.8 per cent) less than budgeted. Most of the underutilization resulted from savings in staff costs (€2.1 million). Posts remained vacant in various field offices for a longer period during the biennium, especially in the regional offices. A saving in the amount of €0.4 million on government-funded positions resulted from the missing income that could have financed such positions. Significant savings occurred in documents production (€0.8 million), travel (€0.3 million) and in operating costs (€0.3 million). Some €0.6 million were saved under other objects such as staff training, general temporary assistance, overtime and hospitality.

14. Major Programme F (Administration) was implemented with expenditure reduced by €0.4 million (2.2 per cent). While there was some increased resource requirement in terms of staff costs (€0.3 million above budget), this was fully offset by savings in training, general temporary assistance and hospitality (€0.3 million). The budget was also slightly overspent by a total amount of €0.5 million for various items such as consultants, expert group meetings, travel, documentation services and miscellaneous operating expenses. However, cost items such as communication service charges (€0.5 million savings), or rental and maintenance of premises (€0.4 million savings), contributed mostly to the overall underimplementation of this major programme.

15. Major Programme G (Buildings Management) generated savings under staff costs amounting to some €1.3 million due to a higher vacancy rate. At the same time, under the operating cost items, an amount of €8.4 million in excess of income over expenditure constitutes the closing balance of the BMS special account.

16. Major Programme H (Indirect Costs) recorded savings in the amount of €1.1 million (8.7 per cent). The savings were partly attributable to the reduced staff costs in BMS, as reported above, but also to reduced expenditures under the various joint and common services.

17. The reduced level of income to the extent of €1.6 million under Major Programme E (Regional Programme) reflected the lower-than-anticipated financial contributions of Governments to the costs of UNIDO field offices.

F. Financial implementation by major object of expenditure

18. The underutilization of budgeted staff costs of €4.6 million (5.1 per cent) comprises:

	Millions of euros
Salaries and common staff costs	2.13
Temporary posts	0.36
Consultants and expert group meetings	1.24
Staff training	0.60
Other	0.27
Total	**4.60**

19. The underutilization of budgeted salary and common staff costs was mainly due to the higher-than-budgeted vacancy factors for Professional and General Service posts, which were partly offset by variations between actual and standard salary costs.

20. The following cost reduction measures were taken to reduce cash outflow and achieve expenditure reductions due to inadequate levels of cash resources:

(a) Restriction of external recruitment against established posts, as reported in the previous chapter, as well as reductions in government-funded posts in field offices;

(b) Substantially reduced utilization of consultancies and ad hoc expert group meeting funds;

(c) Limited usage of staff training funds.

21. Underutilization of funds for official travel of €0.6 million (24.3 per cent) resulted from a general curtailment of staff travel.

22. Savings in operating cost items in the amount of €3.6 million (13.9 per cent) were the result of reduced requirements under these headings, as reported earlier under the different major programmes.

23. The underutilization of €0.9 million (14.0 per cent) for information and communication technology is due to savings under communication service charges, IT consultancy and lower-than-budgeted costs for IT training and networking.

24. The Regular Programme of Technical Cooperation (RPTC) resources were administered under the special account created for the purpose to which the full appropriation has been transferred. An underutilization of €0.22 million occurred under IDDA supplementary activities.

G. Income

25. The deficit of income over the budget estimates comprises:

	Budget	Actual	Surplus/ (deficit)
Government contributions to field operating costs	2.5	0.9	(1.6)
Miscellaneous income	1.7	0.7	(1.0)
Total	**4.2**	**1.6**	**(2.6)**

The deficit in cost reimbursement income of €1.6 million is directly related to the lower-than-anticipated contributions of Governments to the running costs of UNIDO field offices. Miscellaneous income as contained in the budget estimates approved in decision GC.8/Dec.17 of €1.7 million was fully achieved. However, currency exchange adjustments and other income items reduced the final income, as detailed in the following table:

Millions of euros

	Budget	Actual	Surplus/ (deficit)
Interest income on cash balances	1.6	1.6	-
Income from sale of publications	0.1	0.1	-
Currency exchange adjustment	-	(2.1)	(2.1)
Other income	-	1.1	1.1
Total miscellaneous income	**1.7**	**0.7**	**(1.0)**

Of the €2.1 million currency exchange adjustment, €1.84 million represents the transfer to the exchange reserve account as mentioned in the terms of GC.8/Dec.16.

II. OPERATIONAL BUDGET

26. The operational budget is funded mainly from support cost income earned on technical cooperation project delivery and from technical services provided by the Organization. Support cost estimates to be financed during the biennium from operational budget income were presented in the programme and budget document (IDB.24/3-PBC.17/3) and approved by the General Conference in decision GC.9/Dec.17.

27. The financial results for the biennium are as follows:

Millions of euros

	Budget (1)	Actual (2)	Variance (3)=(2-1)
Technical cooperation delivery, excluding regular budget (RPTC)	193.6	176.0	(17.6)
Income earned on delivery for technical services	22.0	18.8	(3.2)
Cost reimbursement from host Governments	0.2		-
Miscellaneous income	0.2	(1.0)	(1.2)
Total income	22.4	18.0	(4.4)
Expenditure	22.4	18.8	(3.6)
Surplus/(deficit)	-	(0.8)	(0.8)

28. A comparison of actual expenditure with the budget estimates, as contained in document GC.8/16, is presented in tables 3 and 4 by major programme and major object of expenditure, respectively.

29. While actual technical cooperation delivery and income did not reach the budgeted level, strict expenditure control resulted in spending exactly the amount that was earned on support cost reimbursement. The marginal deficit that was recorded at the end of the biennium is mainly due to the exchange difference from the revaluation of the United States dollar cash and term deposits held by the accounts for the operational budget. The net operating reserve of €3.3 million brought forward from 2001 was reduced to €3.1 million as at 31 December 2003 by the net deficit for the biennium 2002-2003 of €0.2 million, after taking into account cancellation of prior biennium obligations and prior biennium adjustments.

III. ACTION REQUIRED OF THE COMMITTEE

30. The Committee may wish to take note of the information provided in the present document.

Table 1
Regular budget

Financial performance report for 2002-2003 by major programme
(In thousands of euros)

Major programme	Approved budget estimates 2002-2003[a] (1)	Actual expenditure/income 01/01/02 to 31/12/03 (2)	Unutilized balance as at 31/12/03 (3)=(1)-(2)	Percentage (4)=(3)/(1)
Expenditure				
A. Governing Bodies	5,349.7	4,877.9	471.8	8.8
B. General Management	9,699.2	11,279.8	(1,580.6)	(16.3)
C. Strengthening of Industrial Capacities	37,105.2	31,514.1	5,591.1	15.1
D. Cleaner and Sustainable Industrial Development	21,979.4	22,624.8	(645.4)	(2.9)
E. Regional Programme	2,633.9	28,136.1	4,497.8	13.8
F. Administration	18,749.7	18,341.9	407.8	2.2
G. Buildings Management*			-	
H. Indirect Costs	12,405.2	11,328.1	1,077.1	8.7
Total expenditure	137,922.3	128,102.7	9,819.6	7.1
Income				
E. Regional Programme	2,515.3	872.9	1,642.4	65.3
G. Buildings Management*				
Miscellaneous Income				
a. Estimated in GC.9/Dec.17	1,717.2	1,675.6	41.6	
b. Not estimated in GC.9/Dec.17 (including currency exchange adjustments)		(984.5)	984.5	
Total income	4,232.5	1,564.0	2,668.5	63.0
TOTAL—NET	133,689.8	126,538.7	7,151.1	5.3
*G. Buildings Management				
Expenditure	37,550.5	27,606.8	9,943.7	26.5
Income				
Estimated	37,550.5	35,846.4	1,704.1	
Not estimated (including currency exchange adjustments)		204.2	(204.2)	
Total Buildings Management		(8,443.8)	8,443.8 [b]	22.5

[a] Approved in decision GC.9/Dec.17.

[b] The balance of the appropriation reported above is attributed to the BMS special account and is not subject to financial regulations 4.2(b) and 4.2(c).

Table 2
Regular budget

Financial performance report for 2002-2003 by major object of expenditure
(In thousands of euros)

Major object of expenditure	Approved budget estimates 2002-2003[a] (1)	Actual expenditure/income 01/01/02 to 31/12/03 (2)	Unutilized balance as at 31/12/03 (3)=(1)-(2)	Percentage (4)=(3)/(1)
Expenditure				
1. Staff costs	90,135.3	85,574.4	4,560.9	5.1
2. Official travel	2,550.0	1,930.3	619.7	24.3
3. Operating costs	25,543.3	21,991.2	3,552.1	13.9
4. Information and communication technology	6,169.8	5,304.6	865.2	14.0
5. RPTC and IDDA supplementary activities	13,523.9	13,302.2	221.7	1.6
Total expenditure	137,922.3	128,102.7	9,819.6	7.1
Income				
a. Estimated in GC.9/Dec.17	4,232.5	2,548.5	1,684.0	
b. Not estimated in GC.9/Dec.17 (including currency exchange adjustments)		(984.5)	984.5	
Total income	4,232.5	1,564.0	2,668.5	63.0
TOTAL—NET	133,689.8	126,538.7	7,151.1	5.3

[a] Approved in decision GC.9/Dec.17.

Table 3

Operational budget

Financial performance report for 2002-2003 by major programme
(In thousands of euros)

Major programme	**Approved budget estimates 2002-2003**[a] (1)	**Actual expenditure/income 01/01/02 to 31/12/03** (2)	**Variance** (3)=(1)-(2)
Expenditure			
B. General Management	492.9	487.1	5.8
C. Strengthening of Industrial Capacities	6,895.5	5,113.1	1,782.4
D. Cleaner and Sustainable Industrial Development	5,243.8	4,878.3	365.5
E. Regional Programme	5,715.7	4,615.1	1,100.6
F. Administration	4,024.7	3,732.4	292.3
Total expenditure	22,372.6	18,826.0	3,546.6
Income			
E. Regional Programme	174.6	217.2	(42.6)
Miscellaneous Income			
a. Estimated in GC.9/Dec.17	200.0	132.7	67.3
b. Not estimated in GC.9/Dec.17 (including currency exchange adjustments)		(1,116.2)	1,116.2
Total income	374.6	(766.3)	1,140.9
TOTAL—NET	21,998.0	19,592.3	2,405.7

[a] Approved in decision GC.9/Dec.17.

Table 4

Operational budget

Financial performance report for 2002-2003 by major object of expenditure

(In thousands of euros)

Major object of expenditure	**Approved budget estimates 2002-2003[a]** (1)	**Actual expenditure/income 01/01/02 to 31/12/03** (2)	**Variance** (3)=(1)-(2)
Expenditure			
1. Staff costs	21,260.3	17,519.1	3,741.2
3. Operating costs	1,112.3	1,307.0	(194.7)
Total expenditure	22,372.6	18,826.1	3,546.5
Income			
a. Estimated in GC.9/Dec.17	374.6	349.9	24.7
b. Not estimated in GC.9/Dec.17 (including currency exchange adjustments)		(1,116.2)	1,116.2
Total income	374.6	(766.3)	1,140.9
TOTAL—NET	21,998.0	19,592.4	2,405.6

[a] Approved in decision GC.9/Dec.17.