Distr.: General
29 April 2015

Original: English

United Nations Industrial Development Organization

Industrial Development Board
Forty-third session
Vienna, 23-25 June 2015
Item 4 (a) of the provisional agenda
Report of the External Auditor for 2014

Programme and Budget Committee
Thirty-first session
Vienna, 27-29 May 2015
Item 4 of the provisional agenda
Report of the External Auditor for 2014

Report of the External Auditor on the accounts of the United Nations Industrial Development Organization for the financial year 1 January to 31 December 2014*

Contents

* The report of the External Auditor is reproduced in the form in which it was received by the Secretariat. The present document has not been edited.

V.15-01738 (E) 300415 040415

President
Federal Court of Auditors
Germany

Adenauerallee 81
53113 Bonn
Telephone +49 1888 721 1000
E-mail: Kay.Scheller@brh.bund.de

To the
President of the Industrial Development Board
United Nations Industrial Development Organization
Vienna International Centre
P.O. Box 300
A-1400 Vienna
Austria

21 April 2015

Excellency,

I have the honour to present to the 43rd session of the Industrial Development Board, through the 31st session of the Programme and Budget Committee, my report and opinion on the Financial Statements of the United Nations Industrial Development Organization for the year ended 31 December 2014. I have audited the Financial Statements and have expressed my opinion thereon.

In transmitting my report I wish to advise that in accordance with the United Nations Industrial Development Organization's Financial Regulations, I have given the Director-General the opportunity to comment on my report. The response of the Director-General has appropriately been reflected in my report.

Please accept, Excellency, the assurances of my highest consideration.

[*Signed*]
Kay Scheller
President of the Federal Court of Auditors
Germany
External Auditor

Acronyms and Abbreviations

BMS	Buildings Management Services
BSS	Business and Systems Support Services
Bundesrechnungshof	German Supreme Audit Institution
CCS	Committee on Common Services
CTBTO	Comprehensive Nuclear-Test-Ban Treaty Organization
DG	Director-General
FR	Financial Regulations and Rules of UNIDO
GC	General Conference
G-Staff	General staff
IAEA	International Atomic Energy Agency
ICM	Information and Communications Management
IOS	Internal Oversight Services
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISSAI	International Standards for Supreme Audit Institutions
The Management	UNIDO’s Management
MoU	Memorandum of Understanding
MRRF	Major Repair and Replacement Fund
PPE	Property, Plant and Equipment
PSC	Programme Support Costs
P-Staff	Professional staff
TC	Technical Cooperation
ToR	Terms of Reference
UN	United Nations
UNIDO	United Nations Industrial Development Organization
VBO	Vienna Based Organizations
VIC	Vienna International Centre

A. Executive Summary

My team and I audited the Financial Statements of UNIDO	1. My team and I audited the financial statements of the United Nations Industrial Development Organization (hereinafter “UNIDO”) for the financial period from 1 January to 31 December 2014. The Financial Statements include the following: • Statement 1 Statement of financial position • Statement 2 Statement of financial performance • Statement 3 Statement of changes in net assets • Statement 4 Cash flow statement • Statement 5 Statement of comparison of budget and actual amounts • Notes to the financial statements
Responsibility of the Management	2. The Director-General (hereinafter “DG”) is responsible for preparing the financial statements in accordance with Financial Regulations and Rules of UNIDO (hereinafter “FR”).
Responsibility of the External Auditor	3. In accordance with Article XI of the FR, my responsibility is to express an opinion on such financial statements based on my audit.
IPSAS	4. UNIDO’s management (hereinafter “the Management”) adopted the International Public Sector Accounting Standards (hereinafter “IPSAS”) as the basis of accounting in 2010 and applied transitional provisions pursuant to IPSAS 17 and 23. The five-year period of validity of such transitional provisions ended in financial year 2014.
I conducted my audit in conformity with the International Standards on Auditing	5. I conducted my audit, pursuant to Article XI of the FR, in conformity with the International Standards on Auditing (hereinafter “ISA”) as adopted and amended by the International Organization of Supreme Audit Institutions (hereinafter “INTOSAI”) and issued as International Standards for Supreme Audit Institutions (hereinafter “ISSAI”). As stipulated by these standards, I need to comply with ethical requirements and to plan and to carry out the audit with a view to obtaining reasonable assurance about whether the financial statements are free from material misstatement.
Scope of the audit as a reasonable basis for the audit opinion	6. The audit included the examination, on a test basis, of evidence supporting the amounts and disclosures stated in the financial statements. It also encompassed an assessment of the accounting principles used and an evaluation of the overall presentation of the financial statements. In accordance with the terms of reference governing the audit of UNIDO’s financial statements, I examined UNIDO’s performance, i.e. in particular the economy, efficiency and effectiveness of the accounting procedures, of the accounting system, of the internal control system and, in general, the financial impact of current management practices. I believe that my audit provides a reasonable basis for the audit opinion.
The Financial Statements present a fair view of the financial position	7. As a result of my audit, I am of the opinion that the financial statements present, in all material respects, a fair view of the financial position as at 31 December 2014, that they were prepared in accordance with IPSAS and UNIDO’s stated accounting policies, and that the transactions were conducted in accordance with the FR.

I issued an unqualified opinion on the Financial Statements	8. The audit revealed no shortcomings or errors that I considered material with regard to accuracy, completeness and validity of the financial statements as a whole; therefore I expressed an unqualified audit opinion on UNIDO's financial statements for 2014.

B. Audit Procedure

B.1. Scope of the Audit

President of the Bundesrechnungshof appointed as External Auditor of UNIDO	9. Pursuant to the General Conference (hereinafter "GC") decision GC.15/Dec.8, Mr. Dieter Engels, President of the Bundesrechnungshof (German Supreme Audit Institution), was appointed External Auditor of UNIDO, beginning on 1 July 2014 until 30 June 2016.
Germany designated successor as External Auditor	10. In April 2014, Mr Engels' tenure of office ended. The Federal German Parliament elected me, the undersigned, Kay Scheller, as President of the Bundesrechnungshof in May 2014 and appointed me on 30 June 2014. In accordance with Regulation 11.2 of the FR, Germany designated me as Mr Engels' successor and External Auditor of UNIDO.
Financial Statements for the financial year from 1 January to 31 December 2014	11. My team and I audited the financial statements of UNIDO for the financial year from 1 January to 31 December 2014. The financial statements include the statement of financial position as at 31 December 2014, the statement of financial performance for the year ended 31 December 2014, the statement of changes in net assets for the year ended 31 December 2014, the cash flow statement for the year ended 31 December 2014, the statement of comparison of budget and actual amounts for the year ended 31 December 2014 and the notes to the financial statements. We also examined related financial accounts and transactions.
Responsibility of Management	12. The DG is responsible for the preparation and fair presentation of the financial statements in accordance with the FR, and in application of such internal controls as management considers necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
Responsibility of the External Auditor	13. I am responsible for expressing an opinion on the financial statements based on evidence obtained during my audit. I conducted my audit, pursuant to Article XI of the FR, in conformity with ISA as adopted and amended by INTOSAI and issued as ISSAI. As stipulated by these standards, I need to comply with ethical requirements and to plan and to perform the audit with a view to obtaining reasonable assurance about whether the financial statements are free from material misstatement.
Report discussed with the Management	14. My report on financial year 2014 contains the main observations, findings and recommendations. The financial statements of UNIDO, as well as my audit report and audit opinion, were discussed with the Management. The DG took note of the report contents and agreed with the findings.
Reporting to PBC and IDB	15. The External Auditor's Report and the audited financial statements will be forwarded by the Programme and Budget Committee to the Industrial Development Board.

B.2. Audit Objective

Financial audit as basis of the audit opinion

16. According to the requirements of ISA, the main objective of the audit was to enable me to express an opinion on whether expenditure recorded for the year had been incurred for the purposes approved by the GC; whether revenue and expenses were properly classified and recorded in accordance with the FR; and whether the financial statements present a fair view of the financial position as at 31 December 2014. This includes the correctness of year-end balances of all UNIDO funds as part of UNIDO's accounts.

Performance audits with respect to economy, efficiency and effectiveness

17. In addition, the ISSAI provide guidance on the conduct of performance audits. In accordance with the terms of reference governing the audit of UNIDO's financial statements, I examined UNIDO's performance, i.e. in particular the economy, efficiency and effectiveness of the accounting procedures, of the accounting system, of the internal control system and, in general, the financial impact of current management practices.

B.3. Audit Approach

Audit team

18. The audit was conducted by various audit teams. The audit teams held discussions with the relevant UNIDO staff at the headquarters. In accordance with usual practice, my audit teams issued information requests and audit observations.

My team examined the accounting records as considered necessary

19. My examination included a general review, and such tests of the accounting records and other supporting evidence as I considered necessary in the given circumstances. To achieve the audit objectives, I examined the financial and accounting procedures applied at UNIDO in the light of the FR and other relevant documentation assessed the internal control system monitoring the financial operations of UNIDO, conducted substantive testing of a representative sample of selected transactions, cross-checked bank balances against accounting records, and analysed assessed contributions. These audit procedures are designed primarily to be able to express an opinion on UNIDO's financial statements.

Random sample

20. Using professional audit software, my team analysed UNIDO's data records and transactions. We took a random sample and verified if transactions and related documents had been filed in accordance with the regulations cross-checking the basis for payment and the necessary signatures. None of the transactions examined gave cause for criticism.

Areas covered in this report

21. My report includes observations and recommendations intended to contribute to the improvement of the financial management and control of UNIDO. With regard to 2014, my audit work mainly covered the financial audit of the 2014 financial statements. Due to the succession as External Auditor in mid-2014, my team has just started to carry out performance audits in accordance with Regulation 11.4 of the FR. The first findings of the audits are shown in the report and my team will proceed with work in the next periods. This will include visits to UNIDO's field offices. At the end of my report, I inform about the process of following up recommendations and other topics, such as fraud, write-offs, losses and ex gratia payments.

B.4. Audit Conclusion

There were no material shortcomings that affected the audit opinion. I expressed an unqualified audit opinion on the Financial Statements

22. Notwithstanding the observations in this report, my examination revealed no shortcomings or errors that I considered material with regard to accuracy, completeness and validity of the financial statements as a whole. Recommendations relating to improved procedures or more comprehensive disclosures were taken up by Management. None of my findings affected my audit opinion on UNIDO's financial statements; therefore I expressed an unqualified opinion on UNIDO's financial statements for 2014.

C. Analysis of the Financial Statements

C.1. Internal Control

Internal control system in place

23. Based on compliance testing my team and I concluded with reasonable assurance that a reliable internal control system was in place in UNIDO to ensure completeness, occurrence, measurement, regularity and disclosure in the 2014 financial statements.

Bookkeeping

24. UNIDO uses its ERP system based on SAP for bookkeeping. The system includes all accounts and funds of UNIDO. All data is recorded using the system. A trial balance could be generated by the system.

Reporting

25. As a matter of fact, UNIDO does not prepare the financial statements using the ERP system. Instead, the trial balance generated by the ERP system is transferred to an Excel worksheet. All necessary adjustments are made within different worksheets. These worksheets include all data and a large number of formulas. Staff from the finance unit developed the worksheets. They update them every year according to necessary changes to the accounting system.

Discontinuity causes extra work and risks

26. The use of the ERP system on the one hand and the Excel worksheets on the other hand results in extra work that could be avoided. By such extra work not only UNIDO's staff is affected, but also my team. Adjustments to the worksheets including the data and the formulas are done manually. This practice bears risks, e.g. transposed numbers or invalid references within a formula. In addition, there is neither documentation nor a systematic process established for updating the worksheets. Only a few people have full knowledge about the preparation of the financial statements.

Using ERP as the only system for accounting and reporting

27. In my opinion, UNIDO should only use the ERP system for accounting and reporting. Therefore, I recommend adding the reporting functionality to the ERP system, especially in view of the financial statements.

Topic included in workplan

28. Business and Systems Support Services (hereinafter "BSS") will provide the necessary support to Financial Services to implement the recommendation on automating the preparation of the Financial Statements. The topic is already included in the BSS workplan as a follow-up to a recommendation from the European Union 7 pillar verification audit previously conducted by Ernst & Young.

Follow-up

29. My team and I will follow up on the process.

C.2. International Public Sector Accounting Standard

IPSAS	30. The Management adopted IPSAS as the basis of accounting. The first financial statements based on IPSAS were prepared for the financial year 2010.
Transitional provisions	31. As permitted for the first-time adoption of IPSAS, the Management applied transitional provisions laid down in IPSAS 17. A five-year transitional period is applicable to the following property, plant and equipment (hereinafter “PPE”).
Project assets	32. Transitional provisions apply to project assets (technical cooperation PPE). The five-year period ended in 2014 for such projects assets that had been purchased before 1 January 2013. Technical cooperation PPE purchased since 1 January 2013 is recognized and capitalized in accordance with IPSAS 17. For these assets, the relevant transitional provision has not been taken in consideration since the financial year 2013.
Buildings	33. Transitional provisions apply to PPE class “buildings”. The five-year period ended in 2014. Therefore, all buildings used by UNIDO will have to be recognized in financial year 2015.
Vienna International Centre	34. Particularly with regard to the Vienna International Centre (hereinafter “VIC”), recognition and capitalization of the VIC might be time-consuming. The headquarters of four organizations of the United Nations family are located in the VIC. The building is used by these organizations in accordance with a 99-year lease contract agreed with Austria for a nominal rent of 1 Austria Schilling (= 0.13 euro) per year. All organizations prepare their financial statements on the basis of IPSAS. A report on the Application of IPSAS Accounting Principles and Associated Guidance to the VIC Transaction was issued in March 2010. No current UNIDO document presenting a clear and consistent concept for the recognition and capitalization of the VIC was made available to me.
Clear and consistent conception	35. I recommend that the Management should continue discussions with the other organizations located at the VIC. The goal should be to prepare a clear and consistent concept for the recognition and capitalization or disclosure of the VIC in UNIDO’s financial statements for the financial year 2015.
Recommendation accepted	36. The Management agreed with my findings and recommendation. The recommendation has been noted.
Segment Reporting as note 19	37. The Management includes the statement of financial position by segment as at 31 December 2014 and the statement of financial performance by segment for the year ended 31 December 2014 in Note 19. In accordance with IPSAS 18, the statements inform about UNIDO’s regular budget activities, technical cooperation and other activities and special services. Since 2010, when UNIDO adopted IPSAS, segment reporting has been part of the notes.
IPSAS 18	38. IPSAS 18 stipulates that an entity that prepares and presents financial statements according to the accrual principle should apply this standard to the presentation of segment information. The disclosure of such information would help users of the financial statements to better understand the entity’s past performance, and to identify the resources allocated to support the major activities of the entity. The standard should be applied in complete sets of published financial statements including a statement of financial position, a statement of financial performance, a cash flow statement, a statement showing changes in net assets/equity, and the notes. On the other hand, the standard does not specify where to present segment information.

Segment Reporting as Statement 6

39. Through segment reporting, the Management provides key information about UNIDO's work, especially about the amounts spent by UNIDO on technical cooperation. In my opinion, the information provided by segment reporting is highly valuable for Member States and should not be presented in a note. Other international organizations like the International Atomic Energy Agency (hereinafter "IAEA") present their segment reporting following Statement 5. Therefore, I recommend that the Management should include a Statement 6 containing the segment reporting, instead of note 19.

UNIDO will examine feasibility.

40. UNIDO will examine the feasibility of implementation of Statement 6 if in line with best practices followed by other United Nations organizations. The United Nations-wide Task Force on Accounting Standards is engaged in a project entitled "Co-ordination of Accounting Diversity", within which the proposed Statement 6 will be discussed. If it becomes an element of the United Nations common format then its implementation shall also be covered by the system improvements planned as a response to the recommendation on enhancing ERP functionality to automate the financial statements reporting.

Follow-up

41. My team and I will follow up on the process.

C.3. Statement of Financial Position

Total net assets increased

42. After two consecutive years of decline by more than 15% per annum, total net assets increased by 7.1% in 2014. UNIDO's total assets grew by 7.5%. At the same time, total liabilities went slightly up by 7.7%. The trend from 2010 to 2014 is shown in Table 1.

	Year as at 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
Current assets					
million euros	553.6	623.2	578.8	551.0	591.7
percentage change		*12.6%*	*(7.1%)*	*(4.8%)*	*7.4%*
Non-current assets					
million euros	10.0	10.5	12.4	21.8	23.9
percentage change		*5.8%*	*17.4%*	*75.8%*	*9.8%*
Total Assets					
million euros	**563.5**	**633.8**	**591.1**	**572.8**	**615.6**
percentage change		***12.5%***	***(6.7%)***	***(3.1%)***	***7.5%***

	Year as at 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
Current liabilities					
million euros	176.1	174.3	135.2	162.6	139.9
percentage change		*(1.0%)*	*(22.4%)*	*20.2%*	*(14.0%)*
Non-current liabilities					
million euros	123.2	137.3	183.0	180.5	229.7
percentage change		*11.4%*	*33.3%*	*(1.3%)*	*27.2%*
Total liabilities					
million euros	**299.4**	**311.6**	**318.2**	**343.1**	**369.6**
percentage change		***4.1%***	***2.1%***	***7.8%***	***7.7%***
Total net assets/Equity					
million euros	**264.2**	**322.2**	**273.0**	**229.7**	**246.0**
percentage change		***22.0%***	***(15.3%)***	***(15.9%)***	***7.1%***

Table 1: Statement of Financial Position

Voluntary contributions increased by almost 60%

43. The reason for this development is an increase in voluntary contributions receivable. Voluntary contributions receivable went up by almost 60%, from 69.3 million euros in 2013 to 110.4 million euros in 2014. On the other hand, non-current liabilities, especially employee benefits, increased significantly by 27.2%.

Management should keep an eye on the development

44. I like to point out that the development might bear risks for the future. Voluntary contributions receivable in 2014 will be spent for technical cooperation programmes in the next years, whereas post-employment benefits are expected to rise continuously over the same period. Therefore, I recommend that the Management should keep a very close eye on the development over the next years.

Recommendation accepted

45. The Management agreed with my findings and recommendation. The recommendation has been noted.

C.3.1. Assets

C.3.1.1. Cash and Cash equivalents

UNIDO's overall cash situation is satisfactory

46. UNIDO's overall cash situation is satisfactory. Cash and cash equivalents comprise: cash in the bank and on hand; term deposits with original maturity of less than 3 months; cash and cash equivalents held in field offices. The trend from 2010 to 2014 is shown in Table 2.

Euro/Dollar exchange rate

47. In 2014, the euro devalued significantly compared to the US-dollar. The year-end euro/dollar exchange rate decreased by 11.5%, from 1.379 in 2013 to 1.220 in 2014. Since almost 50% of the cash and cash equivalents were held in US-dollar, accounting profits of about 24 million euros were earned from exchange rate decreases of the euro.

Term deposits increased

48. With 437.7 million euros in 2014, cash and cash equivalents reached almost the same amount as in 2013. Whereas cash in the bank and on hand decreased by 37.8 million euros, term deposits increased by almost the same amount and reached the level of 2012. This development reflects the present situation at the financial markets showing very low interest rates on call accounts and short term deposits.

	Year as at 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
Cash in the bank and on hand					
million euros	38.4	32.9	62.4	132.5	94.7
percentage change		*(14.3%)*	*89.8%*	*112.4%*	*(28.6%)*
Term deposits with original maturity less than 3 months					
million euros	351.7	418.5	349.0	304.2	340.7
percentage change		*19.0%*	*(16.6%)*	*(12.9%)*	*12.0%*
Cash and cash equivalents held in field offices					
million euros	2.6	3.1	3.1	2.0	2.4
percentage change		*18.6%*	*(0.9%)*	*(34.4%)*	*19.5%*
Cash and cash equivalents					
million euros	**392.7**	**454.4**	**414.5**	**438.7**	**437.7**
percentage change		***15.7%***	***(8.8%)***	***5.8%***	***(0.2%)***

Table 2: Cash and cash equivalents (source: Note 2)

Term deposits with maturity of more than 3 months

49. Therefore, some short term deposits were renewed with a maturity of up to 4 to 6 months at the end of 2014. At this occasion, the Management reviewed its decision approved during the financial crisis starting in 2008 to reduce investments held for a maximum of 3 months.

Description to be updated

50. According to this decision, the current description as “Term deposits with original maturity of less than 3 months” might no longer be valid in future financial statements. Hence, I recommend that the Management should update the description to reflect the maturity of term deposits held.

Recommendation accepted

51. The Management agreed with my findings and recommendation. The recommendation has been noted.

Annual average interest rates 2014 and 2013 disclosed

52. UNIDO disclosed the interest rate of interest-bearing bank accounts and term deposits as an annual average rate on a yearly basis in Note 2. In 2014, the annual average rate for holdings in euro was 0.20%, for holdings in US-dollar 0.21%. UNIDO reported annual average rates for 2013, 0.19% for holdings in euro and 0.30% for holdings in US-dollar.

Investment revenue decreased

53. UNIDO disclosed investment revenue as interest earned and accrued on short-term deposits held with financial interest in Note 16. Investment revenue decreased significantly from 0.5 million euros in 2013 to 0.1 million euros in 2014.

Annual average interest rate versus investment revenue

54. The development of the annual average interest rates and the development of the investment revenue do not match. The annual average interest rate for holdings in euro is almost stable and the rate for holdings in US-dollar declined by about one third, whereas the investment revenue decreased by 81.6%. Upon request, the Management explained that the calculation method changed. The interest rate of call accounts is included in the calculation of the annual average interest rate in 2014. Therefore, the two rates are not comparable. The annual average interest rate of 2013 would be up to 1.0 percentage point higher if it was calculated using the method applied in 2014.

Information needs to be comparable

55. In my opinion, information needs to be disclosed on a comparable basis. I recommend that the Management should at least disclose the changed calculation method.

Recommendation accepted

56. UNIDO agrees with the recommendation and will make sure any change in methodology of the average interest rate calculation shall be disclosed in relevant notes in the future.

C.3.1.2. Assessed Contributions Receivable

Assessed contributions increased

57. In 2014, the level of assessed contributions increased by some 6 million euros to 98.4 million euros. This amount is almost the amount reached in 2010 and 2011. The trend from 2010 to 2014 is shown in Table 3.

	Year as at 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
Current assessed contributions receivable					
million euros	97.8	99.3	92.5	92.5	98.4
percentage change		*1.6%*	*(6.8%)*	*(0.0%)*	*6.4%*
Allowance for doubtful accounts					
million euros	91.4	91.5	87.2	86.8	89.8
percentage change		*0.0%*	*(4.7%)*	*(0.5%)*	*3.5%*
Non-current assessed contributions receivable					
million euros	15.3	10.2	6.6	1.1	0.6
percentage change		*(33.5%)*	*(35.7%)*	*(82.9%)*	*(45.0%)*
Allowance for doubtful accounts					
million euros	10.7	6.2	2.3	0.5	0.2
percentage change		*(42.6%)*	*(62.0%)*	*(76.7%)*	*(57.7%)*

Table 3: Assessed contributions receivable (source: Note 3)

Allowance for doubtful contributions had to be calculated as at 31 December 2014

58. In accordance with IPSAS, an allowance for doubtful contributions had to be calculated as at 31 December 2014. The allowance amount for doubtful account increased by 3 million euros to a total of 89.8 million euros. More than 71 million euros of the allowance refer to doubtful assessed contributions of former Member States. On the other hand, total outstanding amounts (without former Member States) still total 27.9 million euros. The trend from 2010 to 2014 is shown in Table 4.

	First year of a biennium as at 31 December		
	2010	2012	2014
Assessed contributions payable million euros	78.3	76.6	72.0
Assessed contributions collected million euros	73.2	67.6	64.5
Assessed contributions outstanding million euros	5.3	9.1	7.5
Outstanding amounts in total million euros	41.9	27.9	27.9

Table 4: Status of assessed contributions without former Member States — first year of a biennium — (source: Annex I)

Member States should fulfil their obligations

59. Therefore, I would like to remind the few Member States with significant arrears to fulfil their obligations and to pay due contributions. It is also a question of fairness towards the other Member States to contribute to UNIDO's financial health according to incurred commitments.

Recommendation accepted

60. The Management agreed with my findings and recommendation. The recommendation has been noted.

Non-current assessed contributions

61. Non-current contributions receivable are confirmed contributions of Member States that fall due after one year from reporting date in accordance with agreed payment plans. Payment plans are negotiated between the Member States and the Management in order to reduce arrears. Over the last 5 years, Member States and Management successfully reduced non-current assessed contributions receivable. The trend from 2010 to 2014 is shown in Table 3.

Negotiations about payment plans recommended

62. I appreciate that Member States being in arrears agreed on payment plans with the Management, met their obligations and paid off long-standing debts. The agreements concluded between Member States being in arrears and the Management are to the mutual benefit of both parties. Therefore, I recommend that Member States being in arrears and the Management should take every opportunity to negotiate payment plans.

Recommendation accepted

63. The Management agreed with my findings and recommendation. The recommendation has been noted.

C.3.1.3. Voluntary Contributions Receivable

Voluntary contributions increased by almost 60%

64. In 2014, voluntary contributions increased by more than 40 million euros totalling 110.4 million euros. This amount almost reaches the level of 2010 and 2011. No allowance has been made to voluntary contributions. The trend from 2010 to 2014 is shown in Table 5.

Voluntary contributions welcomed

65. The increase in voluntary contributions is most welcome. Voluntary contributions allow UNIDO to finance core activities and to increase the number of projects to reach the DG's objective of an inclusive and sustainable industrial development. Voluntary contributions are not only financial contributions, but also e.g. contributions made by providing expertise and experts or contributions in-kind.

	Year as at 31 December				
	2010	2011	2012	2013	2014
Voluntary contributions receivable					
million euros	74.0	111.0	119.9	69.3	110.4
percentage change		*49.9%*	*8.0%*	*(42.2%)*	*59.3%*

Table 5: Voluntary contributions receivable (source: Note 3)

Programme support costs

66. In general, voluntary contributions include programme support costs (hereinafter "PSC") to cover the administrative costs of the organization. PSC are usually added to donor's voluntary contributions. Some donors pay PSC based on the direct costs at a rate of 7%. In other cases, the rate applied is 13% of the donation.

Administrative costs higher

67. However, administrative costs are estimated to be higher than these values. Expert estimates assume a real rate of approximately up to 25%. Therefore, in any case, voluntary contributions from one donor cause additional expenditure for the organization. These are borne by the regular budget on the expense of all member states.

Administration of voluntary contributions distract from DG's objectives

68. Increasing voluntary contributions and a constant budget (real growth of 0%) jeopardize the DG's development objectives.

Observing the development

69. I recommend that the Management should observe the current and future situation. The Management should ensure a balance between voluntary contributions and the regular budget to finance UNIDO.

Recommendation accepted

70. The Management agreed with my findings and recommendation. The recommendation has been noted.

C.3.2. Liabilities

C.3.2.1. Accounts Payable

Financial Regulation 4.2.

71. According to Financial Regulation 4.2, "the unencumbered balance of the appropriations at the end of a fiscal period shall be surrendered to the Members at the end of the first calendar year following the fiscal period after deducting there from any contributions from Members relating to that fiscal period which remain unpaid, and shall be credited to the Members in proportion to their assessed contributions in accordance with the provisions of the Financial Regulations 4.2 (c) and 5.2 (d)".

Accounts payable to Member States

72. The surplus amount available for distribution is the unspent balances resulting from the collections from Member States. The assessed collections received relative to earlier biennia plus the amounts received from new Member States are shown under "accounts payable" (pending receipt of the instructions by concerned Member States). The trend from 2010 to 2014 is shown in Table 6.

	Year as at 31 December				
	2010	2011	2012	2013	2014
Unencumbered balance brought forward on 1 January million euros	22.4	11.8	26.8	10.4	16.6
Plus: Collection of contributions from previous period million euros	7.8	16.0	8.6	12.0	1.7
Minus: Applied to assessment, retained for Technical Cooperation (hereinafter "TC") activities or refunded to Member States million euros	(18.5)	(1.0)	(25.0)	(5.8)	(13.4)
Balance payable to Member States million euros	11.8	26.8	10.4	16.6	4.8

Table 6: Unencumbered balance (source: Note 10, accounts)

C.3.2.2. Employee Benefits Liabilities

Rising trend intact

73. Employee benefits liabilities consist of current and non-current liabilities. The trend from 2010 to 2014 is shown in Table 7.

	Year as at 31 December				
	2010	2011	2012	2013	2014
Short-term benefits					
million euros	0.5	0.8	2.3	1.5	2.0
percentage change		*56.1%*	*189.9%*	*(35.2%)*	*30.4%*
Post-employment benefits					
million euros	118.0	132.3	176.8	175.1	223.5
percentage change		*12.1%*	*33.6%*	*(1.0%)*	*27.7%*
Other long-term benefits					
million euros	5.1	4.9	6.1	5.4	6.2
percentage change		*(4.1%)*	*24.7%*	*(11.5%)*	*14.4%*
Total liabilities					
million euros	**123.6**	**138.0**	**185.2**	**182.0**	**231.6**
percentage change		***11.6%***	***34.2%***	***(1.7%)***	***27.3%***

Table 7: Employee benefits liabilities (source: Note 11)

Short-term employee benefits are negligible

74. Short-term employee benefits liabilities including salaries, home leave travel and education grants are calculated by UNIDO based on personnel data and past payment experience. Compared to non-current employee benefits liabilities, short-term employee benefits amounting to 2 million euros are negligible.

Non-current employee benefits increased

75. Post-employment benefits and other long-term employee benefits are determined by professional actuaries. The actuarial valuation is an estimate of the long-term liabilities. Changes in assumptions, the discount rate and the inflation rate could significantly impact on such estimate. The assumptions are disclosed by the Management in accordance with IPSAS.

Deficit of regular budget increases

76. Due to these non-current liabilities for employee benefits, the General Fund balance of UNIDO's regular budget is negative. The deficit amounts to 153.5 million euros. Although it is not a payment that needs to be made in the near future, cash payments will be made in the years to come in order to meet these expenses and other separation benefits.

C.4. Statement of Financial Performance

Voluntary contributions increased

77. For the first time after two years of decline, total revenues increased by 15.7% in 2014. The increase is mainly due to higher voluntary contributions totalling almost 150 million euros. On the other hand, assessed contributions decreased by 6%. The trend from 2010 to 2014 is shown in Table 8.

	Year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
Total revenue					
million euros	**255.3**	**273.6**	**220.9**	**191.6**	**221.6**
percentage change		***7.2%***	***(19.2%)***	***(13.3%)***	***15.7%***
thereunder:					
- Assessed Contributions					
million euros	78.3	78.3	76.6	76.5	71.9
percentage change		*0.0%*	*(2.2%)*	*(0.0%)*	*(6.0%)*
- Voluntary contributions					
million euros	173.9	193.0	142.9	114.0	149.6
percentage change		*11.0%*	*(26.0%)*	*(20.3%)*	*31.3*
- Investment revenue					
million euros	0.5	0.8	0.8	0.5	0.1
percentage change		*53.6%*	*(8.4%)*	*(37.1%)*	*(81.6%)*
Total expenditure					
million euros	**171.4**	**190.1**	**237.8**	**239.8**	**165.4**
percentage change		***10.9%***	***25.1%***	***0.9%***	***(31.0%)***
This comprises:					
- Salaries/employee benefits					
million euros	112.5	109.6	115.0	107.9	106.9
percentage change		*(2.6%)*	*5.0%*	*(6.2%)*	*(0.9%)*
- Operational costs					
million euros	22.2	25.2	23.3	34.0	31.8
percentage change		*13.9%*	*(7.8%)*	*46.0%*	*(6.3%)*
- Contractual Services					
million euros	26.3	33.7	55.7	70.1	44.6
percentage change		*28.0%*	*65.4%*	*26.0%*	*(36.4%)*
- TC equipment expensed					
million euros	15.7	18.5	21.4	15.7	4.5
percentage change		*17.8%*	*15.4%*	*(26.8%)*	*(71.1%)*

	Year ended 31 December				
	2010	2011	2012	2013	2014
Currency Translation Differences					
million euros	(18.5)	(12.4)	7.8	9.7	(25.4)
change in million euros		6.0	20.3	1.9	(35.1)
Surplus/(deficit)					
million euros	**83.8**	**83.5**	**(16.8)**	**(48.3)**	**56.2**
change in million euros		**(0.4)**	**(100.3)**	**(31.4)**	**104.5**

Table 8: Financial Performance (source: Statement 2)

Expenditures fell by a third

78. In the same period, expenditures fell by almost a third. Whereas salaries and employee benefits almost remained stable, expenditures for contractual services and TC equipment decreased significantly.

Currency Translation Differences impacting on surplus

79. In total, UNIDO's performance made a volte-face. The deficit of 48.3 million euros in 2013 turned into a surplus of 56.2 million euros. The difference amount is 104.5 million euros, one third of which results from currency translation differences that are only accounted for as profits.

Performance in 2014 is distorted.

80. The euro/dollar exchange rate decrease at year-end impacted on UNIDO's performance in 2014. In my opinion, Management should continue to generate revenues and to limit expenditures.

Recommendation accepted

81. The Management agreed with my findings and recommendation. The recommendation has been noted.

C.5. Statement of comparison of budget and actual amounts

Preparation of budget and accounts on different bases

82. Since the adoption of IPSAS, UNIDO's budgets und accounts have not been prepared using the same basis. Statements 1 to 4 are fully prepared on accrual basis. Budget items have been classified based on the nature of expenses in accordance with budgets approved for the biennium 2014-2015.

Statement 5 serving as a link

83. The Statement of comparison of budget and actual amounts (Statement 5) provides a reconciliation of budgets with accounts. It is prepared on a modified cash basis of accounting. Budget utilization for the years 2010 to 2014 is shown in Table 9.

	Year ended 31 December				
	2010	2011	2012	2013	2014
Original budget					
million euros	90.7	93.9	91.7	94.8	88.4
Final budget					
million euros	90.7	102.5	91.7	105.7	88.4
Actual amounts on comparable basis					
million euros	82.1	89.5	81.1	89.5	78.0
Balance of appropriations					
million euros	8.6	13.0	10.9	16.3	10.3
percentage of final budget	9.5%	12.7%	11.9%	15.4%	11.7%

Table 9: Comparison of budget and actual amounts
(source: Statement 5)

Percentage of unspent budget funds decreased

84. In 2014, the percentage of unspent budget fell to the level reached in 2012. This decrease can be observed in every first year of a biennium.

C.6. Fund balance and commitments

Commitments higher than 50% of the fund balance

85. UNIDO's commitments are not recognized as expenses in IPSAS-compliant financial statements. On the other hand, commitments tie up UNIDO's financial resources resulting in a cash outflow in future years. In 2014, more than 55% of UNIDO's fund balance is tied up by commitments. Over the past five years, the percentage of fund balance has increased. The trend from 2010 to 2014 is shown in Table 10.

	Year ended 31 December				
	2010	2011	2012	2013	2014
Fund balance					
million euros	240.0	303.8	254.6	211.3	227.1
percentage change		*26.6%*	*(16.2%)*	*(17.0%)*	*7.5%*
Commitments					
million euros	86.0	109.2	132.7	99.9	125.4
percentage change		*27.0%*	*21.5%*	*(24.7%)*	*25.5%*
percentage of fund balance	35.8%	35.9%	52.1%	47.3%	55.2%

Table 10: Fund balance and commitments
(source: Notes 14, 20)

D. Detailed Findings for 2014

D.1. Buildings Management Service

D.1.1.1. The Memorandum of Understanding does not reflect today's situation

Common services at the VIC

86. The Memorandum of Understanding (hereinafter "MoU") signed on 31 March 1977 between the United Nations (hereinafter "UN"), IAEA and the UNIDO is the main legal document establishing and allocating the common services at the VIC. In 1998, a supplementary MoU was signed admitting the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization (hereinafter "CTBTO") as an additional party. CTBTO pays its contribution according to the cost-sharing formula. CTBTO did not become a service provider.

UNIDO runs BMS

87. The MoU states that the "operation and maintenance functions of Donaupark premises have to be governed by the basic principle that the UN, UNIDO and IAEA bear joint responsibility and the common services will be implemented in a spirit of co-operation". It further includes a short description of the common services. Regarding the "Buildings Management" the MoU stipulates that UNIDO bears the "[r]esponsibility for the operation and management of the physical plant [...]. It is understood that to the extent that it is technically and economically feasible, all appropriate buildings management and maintenance services will be contracted out."

Committee on Common Services

88. The Committee on Common Services (hereinafter "CCS") was established to serve as an umbrella body for the common services. It "is charged with directing all issues arising from the joint tenancy at VIC. Specifically, it shall provide policy advice and coordination with regard to the overall management of the following common services: security, medical, commissary, buildings management and catering". The CCS Terms of Reference (hereinafter "ToR") further state that "each common service shall be allocated to one of the four organizations and shall be operated under the authority of the respective Executive Head, who shall bear final responsibility for that service."

MoU is the basic document governing common services

89. Still today, the MoU is the basic document governing the system of common services. However, whereas the MoU calls for joint responsibility for all common services, the CCS ToR stipulate that each Vienna Based Organization (hereinafter "VBO") is solely responsible for the common service assigned to it. Hence, I recommend removing inconsistencies between MoU and CCS ToR.

Situation has changed over the years

90. When UNIDO assumed the responsibility for "Buildings Management" in 1977, it was the largest organization among VBOs. Since then, UNIDO has shrunk significantly. Over the same period, number and size of the other VBOs have increased. The costs of common services — reflecting the individual size of the various VBOs — were borne pro rata by all VBOs in accordance with formulas developed in 1981 allocating the costs as follows: IAEA 45.5%, UNIDO 31.6% and UNOV 22.9%. For the biennium 2012/2013 the cost sharing ratio reflects the current size of VBOs as follows: IAEA 53.9%, UNOV 22.7%, UNIDO 15.4% and CTBTO 8%.

BMS is UNIDO's largest operation

91. UNIDO's Buildings Management Service (hereinafter "BMS"), the responsible unit for "Buildings Management", is the largest operation within UNIDO, with approximately 60 million euros for the biennium 2014/2015. BMS operations — making up more than 25% of UNIDO's current budget — do not

correspond with UNIDO's actual size. While BMS ToR are summarized in the internal document UNIDO/DGB/2014/01, there is no comprehensive document adopted by all VBOs outlining the mission of UNIDO's BMS.

VIC has been operated for more than 35 years

92. The VIC has been in operation for more than 35 years. With regard to the centre getting older, BMS underlined that the costs of operating, maintaining and repairing the buildings and integrated installations are increasing accordingly.

Risk of potential breakdowns growing

93. I share BMS's view stated above. Furthermore, with regard to the deteriorating situation of buildings and installations, the risk of potential breakdowns is growing, e.g. a total breakdown of the cooling and heating system could make it impossible to use the VIC for several months. UNIDO would be held responsible for such an event by the other VBOs and the owner of the VIC, the Republic of Austria. In addition to that, this corresponds to UNIDO's need to raise and coordinate investments by all stakeholders.

Recommendation to assess potential risks relative to BMS

94. To address these issues, I recommend assessing potential risks in connection with the common service "Buildings Management"; defining clearly BMS's mission taking into account the results of the above mentioned risk assessment; initiating the process of amending and updating the MoU reflecting the above mentioned issues and today's situation with regard to the other VBOs; revising the MoU periodically and amending it, if necessary.

Recommendation accepted

95. The Management agreed with my findings and recommendations. The Management pledged to address the issues.

Follow-up

96. My team and I will follow up on the process.

D.1.1.2. Capacity planning and staffing show significant deficiencies

BMS with a high level of vacancy

97. From 2011 to 2014, the BMS vacancy rate was high. The figures provided by BMS show that there is a significant gap between budgeted and occupied posts (see Table 11). This is true for Professional Staff (hereinafter "P-Staff") and General Staff (hereinafter "G-Staff").

Reference date	9/2011	10/2012	11/2013	12/2014
P-Staff budgeted posts	9	9	9	6
P-Staff occupied posts	4	4	4	3
Vacancy rate P-Staff	**56%**	**56%**	**56%**	**50%**
G-Staff budgeted posts	125	125	125	105
G-Staff occupied posts	90	85	76	78
Vacancy rate G-Staff	**28%**	**32%**	**39%**	**26%**
Temporary assistants	22	22	21	22
Ad hoc workers	12	13	13	14

BMS staffing (source: UNIDO)

BMS with a high level of vacancy	98. From 2011 to 2014, the BMS vacancy rate was high. The figures provided by BMS show that there is a significant gap between budgeted and occupied posts (see Table 11). This is true for Professional Staff (hereinafter "P-Staff") and General Staff (hereinafter "G-Staff").
Number of temporary assistants and ad hoc workers was stable	99. Over the same period, the number of temporary assistants and ad hoc workers was relatively stable. To a certain degree, temporary assistants perform similar tasks as semi-skilled regular G-Staff, whereas ad hoc workers usually carry out simple duties.
Overtime is significant	100. With respect to the same period, BMS G-Staff accumulated special overtime of approximately 11,000 hours per year, with more than 300 hours per person/year in specific cases. According to interviews with BMS management and staff regarding these cases, the specific skills and expertise of such persons make their regular engagement indispensable. BMS management further explained that due to the increasing number of complex projects, the increasing workload resulting from the ageing of the building and the high vacancy rate, BMS is suffering from a structural overtime issue.
No capacity plan	101. My team was unable to find or was not provided with a detailed capacity plan identifying current and future staffing needs to achieve BMS goals.
Discrepancy between high vacancy rate/overtime and workload	102. There is a clear discrepancy between the high vacancy rates and the overtime issue on the one hand and the workload resulting from an ageing building on the other hand. Operating, maintaining and repairing the buildings and integrated installations require detailed capacity planning and implementation. In case of sick or annual leave, termination of employment or cessation, BMS' reliance on certain employees poses a high risk to the proper functioning of BMS.
Detailed capacity plan recommended	103. I recommend developing a detailed capacity plan in accordance with the mission of BMS (cf. 88); implementing the capacity plan in a timely manner; training and qualifying staff or, if needed, hiring qualified experts in order to substitute staff BMS considers indispensable.
Recommendation accepted	104. The Management agreed with my findings and recommendations. The Management pledged to address the issues stated.
Follow-up	105. My team and I will follow up on the process.

D.1.1.3. Buildings Management Service needs to be audited regularly by Internal Oversight Services

BMS has been audited only twice since 2005	106. BMS has been audited only twice since 2005. One audit report was issued in 2005 by the UN Joint Inspection Unit; another one was issued in 2006 by UNIDO's Internal Oversight Services (hereinafter "IOS"). The financial audit of the Major Repair and Replacement Fund (hereinafter "MRRF") with the aim of reporting to the VBOs and the Austrian Government is mandatory and therefore regularly included in the IOS workplan. BMS has not been audited internally since 2006, i.e. for over eight years.
	107. IOS highlights that with "the current level of resources IOS pose a risk in not being able to adequately cover the audit universe identified in the risk assessment in a reasonable time period." IOS's self-assessment clearly states that its current level of resources as only partially conforms to the International Standards for the Professional Practice of Internal Auditing.

Higher audit frequency and appropriate risk assessment required

108. Taking into consideration that BMS is UNIDO's largest operation and that UNIDO bears the final responsibility for VIC buildings management, I am of the opinion that a higher audit frequency is required. The yearly financial audit of the MRRF does not compensate for a regular and comprehensive audit of BMS activities. I also support IOS's self-assessment; its resources do not allow IOS to cover the audit universe of UNIDO within a reasonable time frame. However, appropriate risk assessment and mitigation require regular audits and controls. Therefore, I recommend taking two different actions: strengthening the audit function of IOS; and establishing a regular audit scheme for BMS based on a permanent risk assessment.

Due to limited resources, IOS needs to focus on higher risk entities

109. The Management stated that the lack of sufficient resources was compensated by successive external auditors, independent validators and by IOS itself. The Management is aware of this deficiency, with provision of necessary resources being contingent upon the availability of budgetary resources for the Organization as a whole. Given the limited resources, IOS focuses its audits on higher risk entities related to core UNIDO operations.

Annual risk assessment

110. The Management also stated that IOS performs annual risk assessments of the entire audit universe. In the 2015 risk assessment BMS was in the highest risk category. However, since the EA performed the BMS audit, for efficient use of audit resources on core areas and to avoid duplication of effort, IOS did not include a BMS audit in the 2015 workplan.

Question of allocation than limitation

111. I appreciate IOS' risk assessment of BMS. However, I miss sufficient audit coverage of BMS for the past. In my opinion, UNIDO's resources should be sufficient to strengthen IOS. By allocating two additional auditors, IOS manpower would be doubled. Therefore, in my opinion, it is rather a question of allocation than limitation to implement my recommendation.

D.2. Physical IT Security

IT infrastructure inspected

112. My team audited the physical security of UNIDO's IT infrastructure. They inspected the data centre located in the basement of the C-Building, the backup room located on the 10th floor of the D-Building and some randomly selected network distribution cabinets in the D-Building and C-Building.

Data centre

113. The data centre in the basement is located in two rooms, separated by an operator room. To always guarantee a proper functioning two redundant IT systems for UNIDO's programmes and data were set up, each in one room. These rooms also accommodate the important and mirrored Opentext and SAP databases. The walls and doors between the rooms are made of wood and thus not fire-resisting. There is also wooden furniture in the operator room. The holes for cable ducts on the ceiling and under the raised floor may increase the oxygen inflow in case of fire. Each room is only equipped with one hand-held fire extinguisher and several warning devices for fire, smoke, water and electricity. There is no state-of-the-art fire protection system in place such as an automatic fire extinguisher system. In the case of fire, this situation might lead to a total loss of operational capacity and the total loss of all data since the last backup, since both rooms are located in one single fire section. In addition to that, the operator room is equipped with a kitchenette including connections for water and power supply. This may increase the risk of damage resulting from fire or water.

Transferring one of the IT systems to another fire section	114. I recommend transferring one of these IT systems to another fire section. An alternative but only provisional solution could be the installation of a state-of-the-art fire protection system. In order to mitigate these risks, I recommend reducing the prevailing fire load immediately. To avoid the risk of water ingress, the kitchenette with its water supply should be relocated.
Backup configuration	115. There is a backup configuration for the main IT systems to mitigate the risk of complete data loss. The data centre's backup system and all backup tapes are kept in the same room on the 10th floor of the D-Building. This room is also used for storage of paper and IT components as well as for the operation of a large plotter. The room can be entered through the network administrator's office which is locked when the network administrator is not in his office. However, there is no controlled access restriction.
Separate rooms with controlled and limited access	116. In my opinion, UNIDO should consider keeping the backup system and the backup tapes in separate rooms with controlled and limited access. Combustible material should be removed to reduce the fire load to a minimum.
No updated documentation	117. The official UNIDO policy for IT and IT security has not been updated since 2011, during which time several large changes happened in UNIDO's IT environment.
Comprehensive document required	118. I recommend issuing and implementing a comprehensive official document outlining UNIDO's policy relative to IT and taking into account the current state of technology. This major document may be renewed every year in order to include the actual changes and to add the planning's for the next year.
Recommendations accepted	119. The Management agreed with my findings and recommendations. The Management pledged to address the issues stated.
Follow-up	120. My team and I will follow up on the process.

E. Follow-up on Findings and Recommendations of Last Year and Prior Years

51 recommendations pending	121. The 2013 external audit report included 51 pending findings and recommendations. 17 items included in the follow-up of recommendations of last year's external audit report dated back to the 2010 external audit report. In November 2014, the Management updated the list of follow-ups to inform about the progress with regard to the implementation of these recommendations.
List evaluated	122. My team evaluated the list to ensure continuity and institutional memory. We discussed all items with the relevant staff members and reviewed the mentioned documents. The Management implemented most of the recommendations so that the specific item was closed. Therefore, the list was consolidated and the following key areas were extracted, in which the Management still needs to get active to achieve full implementation:
Information Technology and ERP	123. In past years, UNIDO implemented a new ERP system. My team evaluated the implementation status of the recommendations and discussed the relevant items with the staff members responsible. Although the implementation of the ERP system is still an ongoing project, I acknowledge the achieved results. My team will audit aspects of the ERP system and other information technology in the next years.

Procurement and SRM

124. Procurement procedures were revised and the new SRM was implemented. My audit team evaluated the status achieved and discussed the ongoing process with the staff members responsible. I acknowledge the current implementation status, but I still wish to audit aspects of the SRM and the procurement procedures in the next years.

Staff Recruitment Plan

125. Last year's audit report recommended that the preparation and implementation of succession plans should be given serious attention. In early 2014, human resources management set up a recruitment plan including all vacant positions, retirements, planned recruitments and rotations of staff. Due to budget constraints at the end of 2014, Management suspended the implementation of the recruitment plan. The process was restarted in 2015. I will review this issue in depth in the next audit.

Audit Committee

126. The decision to establish an Audit Committee is still pending. This issue will be revisited in 2015. With regard to the International Standards of Internal Auditing I also recommend establishing an Audit Committee to provide oversight of financial reporting, risk management, internal control and internal audit activities.

IOS Staff

127. In January 2015, the revised Charter of IOS was issued describing the mission, authority and responsibilities delegated by the DG to IOS. The Charter stipulates that IOS shall receive the necessary resources in terms of appropriate staff and adequate funding. At present, ODG/IOS is staffed with a director, an auditor, an investigator and two oversight assistants. An increase of staff resources is still required. I appreciate that the Management is committed to support IOS. Therefore, I would like to reiterate that the insufficient staffing level of ODG/IOS might pose a risk to UNIDO if audits cannot be carried out to the necessary extent.

I appreciate the Management's actions taken

128. I appreciate the actions taken by the Management to implement recommendations. In the course of our future audit activities, my team will examine UNIDO's progress on these fields at my own discretion.

F. Other Topics

Cases of fraud or presumptive fraud

129. IOS informed me about six cases of fraud or presumptive fraud. In four of these cases, the Management terminated the contract or individual service agreement. Two cases are pending. In four cases, no damage is caused. After recovery of more than 75% of the damage, IOS calculated losses of 5,888.85 US-dollar in one case. In the other case, recovery of 1,013 euros is pending.

130. During our audit, my team did not find any other cases of fraud or presumptive fraud.

Losses/write-off

131. In 2014, PPE items totalling 21,483 euros were written off due to loss or theft (2013: 40,069 euros).

Ex gratia payments

132. In 2013 and 2014, no ex gratia payments were made.

G. Acknowledgement

Acknowledgement

133. I wish to express my appreciation for the cooperation and assistance extended by the DG, the Management and UNIDO staff. I am very grateful for their assistance during the entire external audit process.

[*Signed*]

Kay Scheller

President of the Bundesrechnungshof
Germany
External Auditor

ANNEX

CERTIFICATE OF THE EXTERNAL AUDITOR ON THE ACCOUNTS OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

To the President of the Industrial Development Board

Identification of the financial statements

I have audited the financial statements of the United Nations Industrial Development Organization (hereinafter "UNIDO") for the financial period ended 31 December 2014, comprising

- the Statement of Financial Position,
- the Statement of Financial Performance,
- the Statement of Changes in Net Assets,
- the Cash Flow Statement,
- the Statement of Comparison of Budget and Actual Amounts,
- Notes.

Statement of Responsibilities

The Director-General, in accordance with UNIDO's Financial Regulations, is responsible for preparing the financial statements. My responsibility, under Article XI of the Financial Regulations and the Additional Terms of reference governing the audit of UNIDO, is to express an opinion on these financial statements based on my audit.

Basis of Opinion

I conducted my audit in conformity with International Standards on Auditing as adopted and expanded by the International Organization of Supreme Audit Institutions and issued as International Standards for Supreme Audit Institutions. These standards require that I plan and perform the audit with a view to obtaining reasonable assurance about whether the financial statements are free from 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 the Director-General, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

Opinion

As a result of my audit, I am of the opinion that the financial statements present fairly the financial position as at 31 December 2014 and that they were prepared in accordance with the UNIDO's stated accounting policies and that the transactions were in accordance with the Financial Regulations and legislative authority. Further, in my opinion, the transactions of UNIDO that have come to my notice or which I have tested as part of my audit have, in all significant respects, been in accordance with the Financial Regulations and Rules.

Report Reference

In accordance with Article XI of the Financial Regulations, I have also prepared a long-form report on UNIDO's financial statements.

[*Signed*]
Kay Scheller
President of the Federal Court of Auditors
Germany
External Auditor

21 April 2015

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Report by the Director General

1. I am pleased to present the financial statements, prepared under the International Public Sector Accounting Standards (IPSAS) and in accordance with article X of the financial regulations, for the year 2014.

2. As permitted when IPSAS was first adopted on 1 January 2010, one remaining transitional provision allowed under IPSAS standard 17 for recognizing property, plant and equipment (PPE) for project PPE (technical cooperation PPE) and for the PPE class "buildings" was used. The transitional provision expires in 2015.

Assessed contributions

3. The financial implementation of the approved programme and budgets is dependent on the actual level of cash resources available during the year, including the timing of payment of assessed contributions. Actual assessed contributions received and the amounts assessed in accordance with General Conference decisions, with comparative figures for 2013, are shown below in millions of euros.

Table 1
Assessed contributions

	2014		*2013*	
	Millions of euros	*Per cent*	*Millions of euros*	*Per cent*
Assessed contributions receivable	72.0	100.0	76.5	100.0
Assessed contributions received	64.5	89.6	72.4	94.6
Shortfall in collections	7.5	10.4	4.1	5.4

4. The rate of collection of assessed contributions for the year 2014 was 89.6 per cent, which is lower than it was for 2013 at 94.6 per cent. The accumulated outstanding assessed contributions at year-end were €27.9 million, excluding an amount of €71.2 million due from former Member States, leading to an increase from 2013 (€22.3 million). Annex I (e), contained in conference room paper PBC.31/CRP.5, provides details on the status of assessed contributions. Four Member States are making payments under payment plan agreements. Brazil has paid three instalments under a five-year payment plan, two more instalments in the total amount of €14.8 are open. Ukraine has paid two full instalments, while Costa Rica has paid two full and one partial instalment. The Republic of Moldova paid 8 out of 10 instalments. The number of Member States without voting rights was 36 in December 2014; in December 2013, it was 34.

Performance based on the budget basis

5. The adoption of IPSAS has changed the basis of preparing the Organization's financial statements to full accrual; however, in the United Nations system as a whole, there has been no change to the programme and budget preparation methodology. Consequently, IPSAS standard 24 (Presentation of budget information in financial statements) requires that a statement of comparison of budget and actual amounts (statement 5) be included in the financial statements, prepared on the budget basis.

6. Further, to provide the readers of the financial statements with information on the budget basis, a separate section has been included. The following paragraphs describe the financial highlights for the year 2014.

7. The comparison is based on the programmes and budgets for the biennium 2014-2015, as adopted by the General Conference at its fifteenth session (decision GC.15/Dec.16), consisting of regular budget biennial gross expenditure of €147.2 million to be financed from assessed contributions in the amount of €143.7 million and other income of €3.5 million.

8. On a budget basis, the actual regular budget expenditure during the financial year 2014 amounted to €63.0 million (compared with €68.1 million for 2013), or 92.1 per cent (compared with 87.6 per cent for 2013) of the approved gross expenditure budget.

9. Actual collection of budgeted other income for 2014 amounted to €0.52 million from Government contributions to the cost of the field office network and €0.08 million under miscellaneous income, against a budgeted amount of €0.34 million. After taking into account the loss in miscellaneous income of €0.84 million, which was not subject to estimation in decision GC.15/Dec.16, the total net expenditure of €63.28 million represents 89.56 per cent of the net regular budget appropriations of €70.66 million. The resulting balance of net appropriations as at 31 December 2014 amounted to €7.4 million (see annex I (a) and I (b), PBC.31/CRP.5).

10. In the operational budget for 2014, the reimbursement for programme support costs amounted to €12.5 million. Expenditure was recorded in the amount of €14.9 million, resulting in an excess of expenditure over income in the amount of €2.4 million. Consequently, the closing balance of the special account for programme support costs, i.e. the level of the operating reserve, was €10.1 million, compared with an opening balance of €12.5 million.

11. Technical cooperation delivery for the year 2014, as measured under IPSAS, amounted to €116.8 million in expenditure, net of currency translation differences, compared to €152.7 million in 2013. More information on UNIDO's technical cooperation services is available in the *Annual Report of UNIDO 2014* (PBC.31/2-IDB.43/2).

12. The Organization shows a healthy financial situation, as evidenced by a stable cash balance as at 31 December 2014 of €437.7 million (2013: €438.7 million). This, in combination with increased allotments for future technical cooperation services, high utilization of regular budget appropriations and a decent collection rate with regard to assessed contributions, argues well for the Organization's financial stability and its future programmes.

Governance structure

13. As prescribed in its Constitution, UNIDO has three policymaking organs: the General Conference; the Industrial Development Board; and the Programme and Budget Committee. The Member States of UNIDO meet once every two years at the General Conference, the highest policymaking organ of the Organization. The Conference determines the guiding principles and policies and approves the budget and work programme of UNIDO. Members of the Board and the Committee meet once every year to discharge their functions as described by the Constitution, including review of the implementation of the approved programme of work and of the corresponding regular budget and operational budget, as well as of other decisions of the Conference. As the chief administrative officer of the Organization, I have overall responsibility for directing, and authority to direct, the work of the Organization.

Ethics and accountability

14. During 2014, UNIDO continued to enforce its code of ethical conduct and to apply both the policy to ensure protection from retaliation for reporting misconduct or cooperating with audits or investigations and the policy for financial disclosure and declaration of interests.

15. The focal point for ethics and accountability remained active through a series of ethics awareness messages to all staff and through the training of newly appointed staff. The declaration of interests and financial disclosure exercise for 2013 was successfully conducted.

Conclusion

16. Following the adoption of the Lima Declaration at the fifteenth session of the General Conference in December 2013, UNIDO started to operationalize the new mandate of "inclusive and sustainable industrial development" for country partnerships. Strengthening management operations to optimize efficiency and

effectiveness remained a guiding principle and management priority throughout the year. In this spirit, I wish to take this opportunity to express my appreciation to Member States and to the donors for their financial support, and to all UNIDO staff for their contribution to the work of the Organization.

[*Signed*]

LI Yong
Director General

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Responsibility for financial statements and certification

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

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

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

The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the External Auditor during their respective audits. Management objectively reviews the recommendations made by them for further improving the internal control framework of the Organization.

All material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements and accompanying notes. The statements disclose with reasonable accuracy the financial position of the Organization and of funds held in trust by it, the results of operations and the changes in financial position.

[*Signed*]

Peter Ulbrich
Director, Financial Services Branch

[*Signed*]

LI Yong
Director General

Vienna, 11 March 2015

Statement 1: Statement of financial position as at 31 December 2014
(Thousands of euros)

	Note	31 December 2014	31 December 2013
		€ '000	*€ '000*
ASSETS			
Current assets			
Cash and cash equivalents	*2*	437,743.1	438,741.4
Accounts receivable (non-exchange transactions)	*3*	121,443.1	81,309.7
Receivables from exchange transactions	*3*	11,218.4	9,630.5
Inventory	*4*	1,297.7	1,302.7
Other current assets	*5*	19,960.7	20,031.2
Total current assets		**591,663.0**	**551,015.5**
Non-current assets			
Accounts receivable (non-exchange transactions)	*3*	387.6	578.7
Share in net assets/equity of joint ventures accounted for using the equity method	*6*	1,057.5	1,257.7
Property, plant and equipment	*7*	17,820.2	12,994.2
Intangible assets	*8*	3,311.9	4,088.9
Other non-current assets	*9*	1,319.0	2,845.4
Total non-current assets		**23,896.2**	**21,764.9**
TOTAL ASSETS		**615,559.2**	**572,780.4**
LIABILITIES			
Current liabilities			
Accounts payable (exchange transactions)	*10*	2,690.3	4,439.5
Employee benefits	*11*	1,968.3	1,509.3
Transfers payable (non-exchange transactions)	*10*	14,513.0	28,655.0
Advance receipts	*12*	105,998.5	107,398.9
Other current and financial liabilities	*13*	14,687.7	20,550.4
Total current liabilities		**139,857.8**	**162,553.1**
Non-current liabilities			
Employee benefits	*11*	229,626.1	180,444.6
Other non-current liabilities	*13*	96.3	96.5
Total non-current liabilities		**229,722.4**	**180,541.1**
TOTAL LIABILITIES		**369,580.2**	**343,094.2**
NET ASSETS/EQUITY			
Accumulated surpluses/(deficits) and fund balances	*14*	227,056.0	211,252.9
Reserves	*15*	18,923.0	18,433.3
TOTAL NET ASSETS/EQUITY		**245,979.0**	**229,686.2**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**615,559.2**	**572,780.4**

Statement 2: Statement of financial performance for year ended 31 December 2014
(Thousands of euros)

	Note	31 December 2014	31 December 2013
		€ '000	*€ '000*
INCOME/REVENUE			
Assessed contributions	*16*	71,936.8	76,540.1
Voluntary contributions	*16*	149,646.1	113,962.5
Investment revenue	*16*	89.9	487.5
Revenue producing activities	*16*	549.3	469.4
Share of surplus/(deficit) of joint ventures	*16*	(200.3)	106.7
Others	*16*	(405.0)	(14.1)
TOTAL REVENUE		**221,616.8**	**191,552.1**
EXPENDITURE			
Salaries and employee benefits	*17*	106,885.7	107,864.8
Operational costs	*17*	31,830.5	33,977.9
Contractual services	*17*	44,591.6	70,120.6
TC equipment expensed	*17*	4,520.3	15,646.0
Depreciation and amortization	*17*	3,003.0	2,079.7
Other expenses	*17*	-	453.9
TOTAL EXPENDITURE		**190,831.1**	**230,142.9**
Currency translation differences	*17*	(25,438.4)	9,668.9
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD		**56,224.1**	**(48,259.7)**

Statement 3: Statement of changes in net assets for year ended 31 December 2014
(Thousands of euros)

	Note	Accumulated surplus/ (deficit)	Reserves	Total net assets/ equity
			€ '000	
Net assets/equity at the beginning of the year		**211,252.9**	**18,433.3**	**229,686.2**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities	11,14	(37,376.3)		(37,376.3)
Transfer (to)/from provision for delayed contribution	14	(2,693.6)		(2,693.6)
Transfer to/(from) reserves	15		489.7	489.7
Other movements recognized directly in net assets/equity	14	(260.6)		(260.6)
Net movements recognized directly in net assets/equity	14,15	**(40,330.5)**	**489.7**	**(39,840.8)**
Refunds to Donors	14,15	(90.5)		(90.5)
Net surplus/(deficit) for the year		56,224.1		56,224.1
Total movement during the year		**15,803.1**	**489.7**	**16,292.8**
Net assets/equity at the end of the year		**227,056.0**	**18,923.0**	**245,979.0**

Statement 4: Cash flow statement for year ended 31 December 2014
(Thousands of euros)

	Note	31 December 2014	31 December 2013
		€ '000	*€ '000*
Cash flows from operating activities			
Surplus/(deficit) for the period		**56,224.1**	**(48,259.7)**
Foreign-exchange (gains)/losses on cash and cash equivalents		(23,454.6)	6,424.6
Depreciation and amortization	7,8	3,003.0	2,079.7
Increase/(decrease) in provision for contributions	3	(2,693.6)	2,220.4
Valuation gains/(losses) on employee benefit liabilities	11	(37,376.3)	8,699.4
(Increase)/decrease in inventories	4	5.0	44.9
(Increase)/decrease in receivables	3	(41,530.2)	49,124.4
(Increase)/decrease in other assets	5	1,596.9	4,512.1
Increase/(decrease) in advance receipts	12	(1,400.4)	20,771.0
Increase/(decrease) in accounts payable	10	(15,891.2)	10,396.5
Increase/(decrease) in employee benefits	11	49,640.5	(3,235.4)
Increase/(decrease) in other liabilities and provisions	13	(5,862.9)	(3,009.2)
(Gains)/losses on sale of property, plant and equipment	7	3,998.0	1,298.0
Investment/Interest income	6,16	(89.9)	(487.5)
Movements in reserves and provisions	14,15	489.7	47.9
Other movements		(260.7)	6,044.3
Net cash flows from operating activities		**(13,602.6)**	**56,671.4**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(10,795.3)	(12,966.6)
Purchase of intangible assets	8	(318.9)	(1,422.0)
Proceeds from sale of PPE	7	64.5	17.5
Cash flow from investments interest	16	290.1	380.8
Net cash flows from investing activities		**(10,759.7)**	**(13,990.3)**
Cash flows from financing activities			
Credits to Member States	14	(90.5)	(12,028.8)
Net cash flows from financing activities		**(90.5)**	**(12,028.8)**
Net increase/(decrease) in cash and cash equivalents		**(24,452.8)**	**30,652.3**
Cash and cash equivalents at beginning of the financial period		438,741.4	414,513.7
Foreign-exchange gains/(losses) on cash and cash equivalents		23,454.6	(6,424.6)
Cash and cash equivalents at the end of the financial period	2	**437,743.1**	**438,741.4**

Statement 5: Statement of comparison of budget and actual amounts for year ended 31 December 2014
(Thousands of euros)

Regular Budget	Original budget	Final budget	Actuals on comparable basis	Balance of appropriations
	€ '000			
Cost component				
Staff costs	47,786.2	47,786.2	44,492.2	3,294.0
Official travel	846.4	846.4	477.9	368.5
Operating costs	13,680.9	13,680.9	9,699.1	3,981.8
Information and communication technology	3,190.6	3,190.6	2,269.2	921.4
Regular programme of technical cooperation, and special resources for Africa	6,702.9	6,702.9	6,106.3	596.6
Total	**72,207.0**	**72,207.0**	**63,044.7**	**9,162.3**

Operational Budget	Original budget	Final budget	Actuals on comparable basis	Balance of appropriations
	€ '000			
Cost component				
Staff costs	14,634.4	14,634.4	13,600.2	1,034.2
Official travel	714.5	714.5	1,025.0	(310.5)
Operating costs	818.9	818.9	350.9	468.0
Total	**16,167.8**	**16,167.8**	**14,976.1**	**1,191.7**

Total	*Note*	Original budget	Final budget	Actuals on comparable basis	Balance of appropriations
		€ '000			
Cost component					
Staff costs		62,420.6	62,420.6	58,092.4	4,328.2
Official travel		1,560.9	1,560.9	1,502.9	58.0
Operating costs		14,499.8	14,499.8	10,050.0	4,449.8
Information and communication technology		3,190.6	3,190.6	2,269.2	921.4
Regular programme of technical cooperation, and special resources for Africa		6,702.9	6,702.9	6,106.3	596.6
Total	18	**88,374.8**	**88,374.8**	**78,020.8**	**10,354.0**

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

Notes to the financial statements

Note 1. Accounting policies

Reporting entity

1.1 The United Nations Industrial Development Organization (UNIDO) was established in 1966 by General Assembly resolution 2152 (XXI) and became a specialized agency of the United Nations in 1985 with the entry into force of its Constitution. The primary objective of the Organization is the promotion of sustainable industrial development in developing countries and countries with economies in transition. The Organization currently has 169 Member States.

1.2 The Organization has three governing bodies: the General Conference, the Industrial Development Board and the Programme and Budget Committee. All three are anchored in the Constitution of UNIDO, which was adopted in 1979.

1.3 The General Conference, which comprises all Member States of UNIDO, determines the guiding principles and policies of the Organization, and approves its budget and work programme. Every four years, the General Conference appoints the Director General. The General Conference also elects the members of the Industrial Development Board and of the Programme and Budget Committee.

1.4 The Industrial Development Board, which comprises 53 members, reviews the implementation of the work programme and the regular and operational budgets, and makes recommendations on policy matters, including the appointment of the Director General. The Board meets once a year (decision IDB.39/Dec.7(f)).

1.5 The Programme and Budget Committee, consisting of 27 members, is a subsidiary organ of the Board and meets once a year. The Committee assists the Board in the preparation and examination of the work programme, the budget and other financial matters.

1.6 The Organization channels its technical cooperation activities into three areas: creating shared prosperity, advancing economic competitiveness and safeguarding the environment. In addition, it engages in a number of cross-cutting activities, especially in promoting South-South cooperation for industrial development, strategic partnerships, special programmes for the least developed countries and strategic industrial research and statistical services.

1.7 The sections in the notes on segment reporting provide further details on how these core activities are managed and financed.

Basis of preparation

1.8 The financial statements of UNIDO are maintained in accordance with article X of the Financial Regulations of UNIDO, as adopted by the General Conference and in conformity with the International Public Sector Accounting Standards (IPSAS). Accordingly, the financial statements are prepared on the accrual basis of accounting. If IPSAS is silent concerning any specific matter, the appropriate International Financial Reporting Standards and International Accounting Standards are applied.

1.9 The senior management of UNIDO has made an assessment of the entity’s ability to continue as a going concern, and it notes no material uncertainties related to events or conditions which may cast significant doubt. The going-concern concept in accounting is an assumption that a business will continue to exist for the foreseeable future. Therefore, these financial statements are prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the reporting period.

1.10 These consolidated financial statements include the financial statements of UNIDO and the joint venture entities of the Catering Service and the Commissary, as well as the joint venture operations of Buildings Management Services and other common services.

Measurement basis

1.11 The financial statements are prepared using the historic cost convention, except for certain investments and assets which are carried at fair value according to the requirements of the applicable IPSAS standards.

Reporting period

1.12 The financial period for the preparation of annual financial statements in accordance with IPSAS is the calendar year starting on 1 January 2014 and ending on 31 December 2014.

Currency and basis for conversion

1.13 The functional and presentation currency of UNIDO is the euro. All values in the financial statements are expressed in euro and rounded to the nearest 0.1 thousand euro, unless stated otherwise.

Translation and conversion of currencies

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

1.15 Monetary assets and liabilities denominated in other currencies are converted into euros at the United Nations operational rate of exchange in effect at the end of the reporting period.

1.16 Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the conversion of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance.

Use of estimates

1.17 The financial statements necessarily include amounts based on estimates and assumptions made by management using best knowledge of current events and actions. Estimates include, but are not limited to, the following: fair value of donated goods, defined benefit pension and other post-employment benefit obligations; amounts for litigation, financial risk on accounts receivable, accrued charges, contingent assets and liabilities; and degree of impairment on inventories, property, plant and equipment, and intangibles. Actual results could differ from those estimates. Material changes in estimates are reflected in the period in which they become known.

Transitional provisions

1.18 As permitted on first-time adoption of IPSAS, the following transitional provision has been applied.

> Five-year transitional period, allowed under IPSAS standard 17 for recognizing property, plant and equipment (PPE), for project assets (technical cooperation PPE) and for the PPE class “Buildings”;

Project assets (technical cooperation PPE) purchased since 1 January 2013 are recognized and capitalized in accordance with IPSAS without taking into consideration the transitional provision.

Revenue

Exchange revenue

1.19 Revenue from the sale of goods, such as sales of publications and the Computer Model for Feasibility Analysis and Reporting, is recognized when the significant risks and rewards of ownership of the goods are transferred to the purchaser.

1.20 Revenue from the provision of services is recognized in the financial period in which the service is rendered according to the estimated stage of completion of that service, provided that the outcome can be estimated reliably.

Interest revenue

1.21 Interest income is recognized on a time-proportion basis as it accrues, taking into account the effective yield on the asset.

Non-exchange revenue

Assessed contributions

1.22 Revenue from assessed contributions from Member States to the regular budget is recognized at the beginning of the year to which the assessment relates. The revenue amount is determined based on programmes and budgets and billed to Member States according to the scale of assessment approved by the General Conference.

Voluntary contributions

1.23 Revenue from voluntary contributions that include restrictions on their use is recognized upon the signing of a binding agreement between UNIDO and the donor providing the contribution. Revenue from voluntary contributions that include conditions on their use, including an obligation to return the funds to the contributing entity if such conditions are not met, is recognized as the conditions are satisfied. Until such conditions are met, the present obligation is recognized as a liability.

1.24 Voluntary contributions and other revenue which are not supported by binding agreements are recognized as revenue when received.

Goods in kind

1.25 Goods-in-kind contributions are recognized at their fair value, and goods and corresponding revenue are recognized immediately if no conditions are attached. If conditions are attached, a liability is recognized until such conditions are met and the present obligation is satisfied. Revenue is recognized at fair value, measured as at the date the donated assets are acquired.

Services in kind

1.26 Services-in-kind contributions are not recognized in the financial statements as revenue. The nature and type of service are disclosed in the notes to the financial statements.

Expenses

1.27 Expenses arising from the purchase of goods and services are recognized at the point that the supplier has performed its contractual obligations, which is when the goods and services are received and accepted by UNIDO. This process may occur in stages for some service contracts. Also, all other expenses resulting from the consumption of assets or the incurrence of liabilities that result in decreases in net assets/equity during the reporting period are recognized.

Assets

Cash and cash equivalents

1.28 Cash and cash equivalents are held at nominal value and include cash on hand and short-term highly liquid time deposits held with financial institutions.

Receivables and advances

1.29 Receivables and advances are recognized initially at nominal value. Allowances for estimated irrecoverable amounts are recognized for receivables and advances when there is objective evidence that the asset is impaired, in which case the impairment losses are recognized in the statement of financial performance.

Financial instruments

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

1.31 All financial instruments are recognized in the statement of financial position at their fair value. The historical cost-carrying amount of receivables and payables, subject to normal trade credit terms, approximates the fair value of the transaction.

Financial risks

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

- Currency risk. The Organization receives contributions from Member States and donors partly in currencies other than the currency of the expenditure and is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates.
- Interest rate risk. The Organization deposits its funds only in short-term fixed interest accounts and therefore has no significant interest rate risk exposure.
- Credit risk. The Organization has no significant exposure to credit risk because its contributing Member States and donors are generally of high credit standing.
- Counter-party risk. The Organization has its cash deposited with various banks and is therefore exposed to the risk that a bank might default in its obligation towards the Organization. However, UNIDO has policies that limit the amount of exposure to any one financial institution.

Inventories

1.33 Inventories are stated at cost, except when they are acquired through a non-exchange transaction, in which case their cost is measured at their fair value as at the date of acquisition. Costs are assigned by using the “first in, first out” (FIFO) basis for interchangeable items of inventory, and by using specific identification for non-interchangeable items of inventory. A provision for impairment is recorded in the statement of financial performance in the year in which the inventory is determined to be impaired.

1.34 As the value of office supplies, publications and reference tools used are not material, they are expensed upon purchase in the statement of financial performance.

Property, plant and equipment

1.35 Initial recognition of regular budget property, plant and equipment, including assets of the Buildings Management Services and Catering Service, are stated at cost as at the date of acquisition for each asset class. The subsequent carrying amount of property, plant and equipment is at cost less accumulated depreciation and any recognized impairment losses. A capitalization threshold of €600 has been set for this category.

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

1.37 Impairment reviews are undertaken for property, plant and equipment on a yearly basis.

1.38 The straight-line depreciation method is applied over the asset’s estimated useful life to determine the annual depreciation charge, which is recognized in the statement of financial performance. The estimated useful life for each class of property, plant and equipment is as follows:

Class	*Estimated useful life (years)*
Vehicles	3-10
Communications and information technology equipment	3-7
Furniture and fixtures	5-12
Machinery	4-15
Buildings	5-50
Land	No depreciation
Leasehold improvements	The shorter of the lease term or useful life

Intangible assets

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

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

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

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

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

Leases

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

Interests in joint ventures

1.44 A joint venture is a contractual arrangement whereby UNIDO and one or more parties undertake an economic activity that is subject to joint control. Joint venture activities are classified in three different categories:

(a) For jointly controlled operations in which UNIDO is the operator, UNIDO recognizes in its financial statements the assets it controls and the liabilities and expenses it incurs. If another organization is the operator, the expense and liability recognition of UNIDO is limited to the agreed billing arrangements;

(b) For jointly controlled assets, UNIDO recognizes its share of the asset and any associated depreciation;

(c) For jointly controlled entities, UNIDO applies the equity method of accounting. The investment in the jointly controlled entity is initially recognized at cost, and the carrying amount is increased or decreased to recognize the UNIDO share of the surplus or deficit of the jointly controlled entity for each reporting period. The UNIDO share of that surplus or deficit is recognized in the statement of financial performance of UNIDO.

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

Liabilities

Accounts payable and other financial liabilities

1.46 Accounts payable and other financial liabilities are recognized initially at nominal value, which best estimates the amount required to settle the obligation as at the reporting date.

Employee benefit liabilities

Short-term employee benefits

1.47 Short-term employee benefits comprise wages, salaries, allowances, paid sick leave and maternity leave. Short-term employee benefits are due to be settled within 12 months after the end of the period in which the employees render the related service and are measured at their nominal value based on accrued entitlements at current rates of pay.

Post-employment benefits

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

1.49 Post-employment benefits at UNIDO comprise defined benefit plans, namely the pension plan (United Nations Joint Staff Pension Fund), after-service health insurance, repatriation grants and end-of-service allowances, along with costs related to separation entitlements for travel and shipment of household effects.

1.50 Post-employment benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the obligation is determined by discounting the estimated future payment required to settle the obligation resulting from employee service rendered in the current and prior periods, using the interest rates of high-quality corporate bonds for the corresponding maturity years.

1.51 Actuarial gains and losses are recognized using the reserve method in the period in which they occur and are shown as a separate item in the statement of changes in net assets/equity.

Other long-term employee benefits

1.52 Other long-term employee benefits that are largely payable beyond 12 months, such as commutation of annual leave, are calculated on the same actuarial basis as post-employment benefits and actuarial gains, and losses are recognized immediately.

United Nations Joint Staff Pension Fund

1.53 UNIDO is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

1.54 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. Both UNIDO and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan that pertain to UNIDO with sufficient reliability for accounting purposes. Hence, UNIDO has treated this plan as if it were a defined-contribution plan in line with the requirements of IPSAS standard 25. The contributions of UNIDO to the plan during the financial period are recognized as expenses in the statement of financial performance.

Provisions and contingent liabilities

1.55 Provisions are recognized for contingent liabilities when: (a) UNIDO has a present legal or constructive obligation as a result of past events; (b) it is more likely than not that an outflow of resources will be required to settle that obligation; and (c) the amount can be reliably estimated. The amount of the provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date. The estimate is discounted when the effect of the time value of money is material.

1.56 Contingent liabilities for which the possible obligation is uncertain, or for which it is yet to be confirmed whether UNIDO has a present obligation that could lead to an outflow of resources, or obligations that do not meet the recognition criteria of IPSAS standard 19, are disclosed.

Fund accounting and segment reporting

1.57 The financial statements are prepared on a "fund accounting" basis. Each fund is maintained as a distinct financial and accounting entity, with a separate self-balancing, double-entry group of accounts. Fund balances represent the accumulated residual value of revenue and expenses.

1.58 Sources of funds for UNIDO reflect distinguishable types of services that UNIDO provides to achieve its overall objectives. The General Conference or the Director-General may establish separate funds for general or special purposes. Accordingly, segment reporting information is presented on the basis of the source of funds and categorizes all of its activities into three distinct service segments:

(a) *Regular budget activities*. Providing core services, such as the Organization's governance, policy development, strategic direction, research, administration and support services (e.g., financial management and human resource management), as well as services to support the decision-making of Member States and provide core support to the achievement of the primary objective of UNIDO according to its Constitution, i.e., the promotion and acceleration of industrial development in developing countries;

(b) *Technical cooperation activities*. Implementing projects and delivering services directly to beneficiaries. Those services bring direct benefit to beneficiaries in a wide range of areas, from agriculture to environment to trade, and include technology transfer, capacity-building and improvement of production processes. These services are distinguishably different from those provided under regular budget financed activities, as specified above;

(c) *Other activities and special services*. Carrying out "peripheral activities" in support of the services of (a) and (b) above. This last group of other activities and special services refers to services such as sales publications, buildings management and the Computer Model for Feasibility Analysis and Reporting, which are supplementary to the main activities of the Organization, but are in line with and relevant to its general objectives.

Budget comparison

1.59 Both regular and operational biennial programmes and budgets are prepared on a modified cash basis rather than on a full accrual basis. Owing to the different bases of preparing budgets and financial statements, statement 5 (Comparison of budget and actual amounts as required under IPSAS standard 24) is presented on the same basis of accounting, classification and period as the approved budget.

1.60 The comparison statement includes the original and final budget amounts, the actual amounts on the same basis as the corresponding budgetary amounts and an explanation of material differences between the budget and actual amounts.

1.61 Note 18 below provides a reconciliation of actual amounts presented on the same basis as the budget with the actual amounts of net cash flows from operating activities, investing activities and financing activities presented in the financial statements, identifying separately any basis, timing and entity differences.

Related party disclosures

1.62 Related parties that have the ability to control or exercise significant influence over UNIDO in making financial and operating decisions, as well as transactions with such parties unless they occur within a normal relationship and on arm's length terms and conditions, or if such transactions are consistent with normal operating relationships between such entities, will be disclosed. In addition, UNIDO will disclose specific transactions with key management personnel and family members.

1.63 The key management personnel of UNIDO are the Director General, the Deputy to the Director General and the Managing Directors, who have the authority and responsibility for planning, directing and controlling the activities of UNIDO and influencing its strategic direction. Remuneration of key management personnel will be considered a related party transaction.

Note 2. Cash and cash equivalents

	31 December 2014	31 December 2013
	(thousands of euros)	
Cash and cash equivalents		
Cash in the bank and on hand	94,675.1	132,547.0
Term deposits with original maturity of less than 3 months	340,653.4	304,173.2
Cash and cash equivalents held in field offices	2,414.6	2,021.2
Total cash and cash equivalents	**437,743.1**	**438,741.4**

2.1 Cash and cash equivalents contain restrictions on their availability for use, depending upon the fund they relate to. Further information on cash and cash equivalents, listed by segment, is provided in table A under note 19.

2.2 Cash and cash equivalents include cash and term deposits equivalent to €236,006,547 (2013: €256,081,049) held in currencies other than the euro.

2.3 Some cash is held in currencies which are either legally restricted or not readily convertible to euros and is used exclusively for local expenses in the respective countries. At period end, the euro equivalent of these currencies was €1,022,209 (2013: €1,195,713) based on the respective United Nations operational rates of exchange then in effect.

2.4 Interest-bearing bank accounts and term deposits yielded interest at an annual average rate of 0.20 per cent and 0.21 per cent for holdings in euros and United States dollars respectively (2013: 0.19 per cent and 0.30 per cent).

2.5 Cash in field offices is held in imprest bank accounts for the purpose of meeting financial needs in field locations.

Note 3. Accounts receivable

	31 December 2014	31 December 2013
	(thousands of euros)	
Current		
Receivable from non-exchange transactions		
Due from Member States: assessed contribution	98,406.8	92,499.7
Due from Member States: other	245.9	97.0
Voluntary contributions receivable	110,423.1	69,296.1
VAT and other taxes recoverable	4,006.0	7,349.1
Total accounts receivable before allowance	**213,081.8**	**169,241.9**
Allowance for doubtful accounts	(91,638.7)	(87,932.2)
Net accounts receivable from non-exchange transactions	**121,443.1**	**81,309.7**
Receivable from exchange transactions		
Receivables from United Nations organizations	8,717.7	5,271.8
Receivables: other	3,224.5	5,082.5

	31 December 2014	31 December 2013
	(thousands of euros)	
Allowance for doubtful accounts	(723.8)	(723.8)
Net accounts receivable from exchange transactions	**11,218.4**	**9,630.5**

	31 December 2014	31 December 2013
Non-current	*(thousands of euros)*	
Receivable from non-exchange transactions		
Due from Member States: assessed contribution (see para. 3.4)	617.9	1,123.6
Allowance for doubtful accounts	(230.3)	(544.9)
Total receivable from non-exchange transactions	**387.6**	**578.7**

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

Length of time contributions were outstanding	*2014 (percentage)*	*2013 (percentage)*
More than 6 years	100	100
Between 4 and 6 years	80	80
Between 2 and 4 years	60	60
Between 1 and 2 years	30	30

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

	31 December 2014	31 December 2013
	(thousands of euros)	
Allowance for bad and doubtful accounts at beginning of the year	**87,318.2**	**89,538.7**
Change during the year	2,693.8	(2,220.5)
Allowance for bad and doubtful accounts at the end of the year	**90,012.0**	**87,318.2**

3.3 Total allowances for bad and doubtful accounts of €92,592,728 (2013: €89,200,900) consist of €90,011,905 (2013: €87,318,232) against assessed contributions receivable and €2,580,823 against other receivables (2013: €1,882,668).

3.4 Non-current contribution receivables are for confirmed contributions from Member States due after more than one year from the reporting date in accordance with agreed payment plans amounting to €617,937 (2013: €1,123,579).

3.5 Annex I (e) provides details of the status of assessed contributions, and the following table illustrates a summary of contributions receivable by age:

	31 December 2014		*31 December 2013*	
	(thousands of euros)	*(percentage)*	*(thousands of euros)*	*(percentage)*
Age				
1-2 years	10,248.2	10.3	7,342.4	7.8
3-4 years	3,496.9	3.5	2,299.0	2.5
5-6 years	2,246.8	2.3	2,225.0	2.4
7 years and more	83,032.8	83.9	81,756.9	87.3
Total contributions receivable before allowance	**99,024.7**	**100.0**	**93,623.3**	**100.0**

Note 4. Inventories

	31 December 2014	*31 December 2013*
	(thousands of euros)	
Opening inventory	1,302.7	1,347.6
Purchased during the year	220.7	243.6
Total inventory available	**1,523.4**	**1,591.2**
Less: consumption	(216.3)	(286.2)
Less: write-down	(9.4)	(2.3)
Closing inventory	**1,297.7**	**1,302.7**

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

4.2 Inventories are valued net of any impairments or obsolescence. In 2014, UNIDO wrote down inventories by an amount of €9,387 (2013: €2,312) on account of obsolescence and other losses.

Note 5. Other current assets

	31 December 2014	*31 December 2013*
	(thousands of euros)	
Advances to vendors	11,430.3	7,244.1
Advances to staff	3,125.5	5,755.4
Accrued interest	51.8	514.7
E-IOV items	1,667.0	2,648.0
Other current assets	3,686.1	3,869.0
Total other assets	**19,960.7**	**20,031.2**

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

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

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

5.4 Other current assets includes advances to the Buildings Management Services fund.

Note 6. Share in net assets/equity of joint ventures accounted for using the equity method

	31 December 2014	*31 December 2013*
	(thousands of euros)	
Investment in Commissary	834.9	1,082.0
Investment in Catering Service	222.6	175.7
Total share in net assets/equity in joint ventures	**1,057.5**	**1,257.7**

6.1 The United Nations Vienna-based organizations have an agreement that the costs, in excess of any external income, of common services rendered by each organization, such as catering, Commissary, security and medical services and building management, are shared according to established cost-sharing ratios.

6.2 The ratios vary to reflect key factors such as the number of employees and the total space occupied. Each year, ratios derived from the agreed tabulation for the Vienna-based organizations, once approved, become effective to apportion cost. These cost-sharing arrangements are reviewed from time to time by management. The consolidation of all UNIDO joint ventures is based on the cost-sharing ratios applicable to the corresponding reporting periods. Cost-sharing ratios for UNIDO were as follows:

2014 15.389 per cent

2013 15.389 per cent

6.3 Catering Service. The Catering Service is an entity that is jointly controlled by the Vienna-based organizations. The Catering Service sells food, beverages and services to staff members of the Vienna-based organizations and other specified groups of individuals, on the premises of the Vienna International Centre. In 2014 a contract was entered into with a new catering operator, for a period of 10 years. The operator controls and manages the catering business on UNIDO’s behalf and pays a fixed annual operating fee, regardless of the profit or loss incurred by the operator.

6.4 On dissolution, any residual net equity will be distributed to the staff welfare funds of UNIDO and other Vienna-based organizations.

6.5 The Catering Service has no legal personality of its own. Its assets and liabilities are held in the legal name of UNIDO. Therefore, UNIDO, along with other Vienna-based organizations, is potentially exposed to any residual liabilities of the Catering Service.

Summary financial information is provided below.

Catering Service: summary financial information

	31 December 2014 (thousands of euros)	*31 December 2013 (thousands of euros)*
Revenue	51.0	6,688.4
Cost of sales	32.6	2,652.6

	31 December 2014 (thousands of euros)	31 December 2013 (thousands of euros)
Net operating expenses	(282.5)	3,898.8
Assets, current	1,447.3	2,216.6
Assets, non-current	-	307.0
Liabilities, current	0.9	1,378.1
Reserves and fund balance	1,446.3	1,145.5

6.6 Commissary. The Commissary is an entity that is jointly controlled by the International Atomic Energy Agency (IAEA) and the other international organizations based at the Vienna International Centre. The Commissary sells tax-free household items for personal consumption to staff members of the Vienna-based organizations and other specified groups of individuals on a cost recovery basis.

6.7 On dissolution, any residual net equity is distributed to the staff welfare funds of IAEA and the other Vienna-based organizations based on the proportion of sales to staff members of the respective Vienna-based organizations over the five years preceding dissolution.

6.8 The Commissary has no legal personality of its own; its assets and liabilities are held in the legal name of IAEA. The Agency is therefore potentially exposed to any residual liabilities of the Commissary.

Summary financial information is provided below.

Commissary: summary financial information

	31 December 2014 (thousands of euros)	31 December 2013 (thousands of euros)
Revenue	29,495.3	29,418.6
Cost of sales	28,865.9	24,537.6
Assets, current	15,323.1	15,746.2
Assets, non-current	828.1	729.1
Liabilities, current	615.2	1,420.7
Liabilities, non-current	10,110.8	8,023.8
Equity	5,425.2	7,030.9

6.9 Buildings Management Services. Buildings Management Services is responsible for the operation and management of the physical plant of the premises of the Vienna International Centre. UNIDO is assigned to be the operating agency of the service with decision-making capacity over financial and operating policies resting with the Committee of Common Services comprising the respective representatives of the Vienna-based organizations. Therefore, Buildings Management Services is considered a joint operation, with joint control shared among all Vienna-based organizations. Buildings Management Services has no legal status of its own. Its assets and liabilities are held in the name of UNIDO.

6.10 The Vienna-based organizations have been making annual contributions to the Buildings Management Services fund according to the approved ratio as described in paragraphs 6.1 and 6.2 above, with exceptions of reimbursement for ad hoc projects, which are of a cost-recovery nature. While neither the residual interest of the Vienna-based organizations in Buildings Management Services nor the mode of distribution of such interest upon dissolution of the fund is defined in any document, since the operation is carried out on the principle of a "no gain, no loss" basis, balances of the contributions of the Vienna-based organizations net of expenses are recognized as deferral, pending release for services to be delivered in the future (see para. 12.4 below).

Summary financial information is provided below.

Buildings Management Services: summary financial information

	31 December 2014 (thousands of euros)	*31 December 2013 (thousands of euros)*
Revenue	23,176.5	20,179.2
Expenses	23,176.5	20,179.2
Assets, current	55,553.6	55,454.3
Assets, non-current	6,495.3	7,946.5
Liabilities, current	34,615.0	41,863.6
Liabilities, non-current	27,433.9	21,537.3
Equity	-	-

6.11 Costs related to other common services, such as security and medical services, are expensed on a reimbursement basis. The amounts expensed during 2014 were €1,781,585 and €195,886 (2013: €1,945,638 and €235,269), respectively.

Note 7. Property, plant and equipment

	Capitalization in progress and other property, plant and equipment	*Furniture and fixtures*	*Information and communications technologies equipment*	*Vehicles*	*Machinery*	***Total***
Cost						
At 31 December 2013	1,011.7	1,357.3	13,208.0	2,098.0	3,453.1	21,128.1
Additions	3,096.9	732.4	913.0	667.2	5,385.8	**10,795.3**
Disposals/transfers	(1,011.7)	(283.9)	(229.8)	(256.3)	(1,435.4)	**(3,217.1)**
At 31 December 2014	**3,096.8**	**1,805.7**	**13,891.3**	**2,508.9**	**7,403.6**	**28,706.3**
Accumulated depreciation						
At 31 December 2013	64.6	938.5	4,865.3	1,076.6	1,188.9	**8,133.9**
Depreciation charge during the year	363.9	100.1	397.2	268.7	771.6	**1,901.5**
Depreciation charge of joint venture	20.7	15.2	2,302.0	5.0	32.7	**2,375.6**
Disposals/transfers	(449.2)	(22.8)	(751.8)	(170.1)	(131.0)	**(1,524.9)**
At 31 December 2014	-	**1,031.0**	**6,812.7**	**1,180.2**	**1,862.2**	**10,886.1**
Net book value						
At 31 December 2013	**947.2**	**418.8**	**8,342.7**	**1,021.4**	**2,264.1**	**12,994.2**
At 31 December 2014	**3,096.8**	**774.7**	**7,078.6**	**1,328.7**	**5,541.4**	**17,820.2**

7.1 Property, plant and equipment items are capitalized if their cost is greater than or equal to the threshold limit set at €600. They are depreciated over the asset's estimated useful life using the straight-line method. The threshold level is reviewed periodically.

7.2 The majority of additions relate to the full application of the accounting policy on project assets (technical cooperation property, plant and equipment), amounting to €9,714,917.

7.3 Property, plant and equipment items are reviewed annually to determine if there is any impairment in their value. During 2014, review of asset impairments indicated no impairments.

7.4 The gross carrying amount (value at cost) of fully depreciated property, plant and equipment items still in use amounts to €4,710,260 (2013: €5,032,821) at the period end.

Note 8. Intangible assets

	Capitalization in progress and other intangible assets	*Software acquired externally*	*Internally developed software*	*Total*
		(thousands of euros)		
Costs				
At 31 December 2013	**14.9**	**764.8**	**5,362.6**	**6,142.3**
Additions	-	318.9	-	**318.9**
Disposals/transfers	(14.9)	(41.2)	(24.9)	**(81.0)**
At 31 December 2014	-	**1,042.5**	**5,337.7**	**6,380.2**
Accumulated amortization				
At 31 December 2013	**14.8**	**322.1**	**1,716.5**	**2,053.4**
Amortization charge during the year	104.1	107.8	889.6	**1,101.5**
Disposals/transfers	(119.0)	32.8	(0.3)	**(86.5)**
At 31 December 2014	-	**462.5**	**2,605.8**	**3,068.3**
Net book value				
At 31 December 2013	-	**442.8**	**3,646.1**	**4,088.9**
At 31 December 2014	-	**580.0**	**2,731.9**	**3,311.9**

8.1 Intangible assets are capitalized if their cost exceeds the threshold of €1,700 except for internally developed software where the threshold is €25,000, excluding research and maintenance costs. Internally developed software represents development costs of the new enterprise resource planning system.

Note 9. Non-current assets

	31 December 2014	*31 December 2013*
	(thousands of euros)	
Initial advance in Commissary	808.9	808.9
Other non-current assets	510.2	2,036.5
Total, non-current assets	**1,319.0**	**2,845.4**

9.1 Other non-current assets are due after more than one year in accordance with the terms of the agreements. This includes rental deposits and the non-current portion of the advances to the Buildings Management Services fund.

Note 10. Accounts payable

	31 December 2014	31 December 2013
	(thousands of euros)	
Due to Member States	4,832.5	16,562.3
Payables to donors	9,680.5	12,092.7
Payables to vendors	2,690.3	4,439.5
Total accounts payable	**17,203.3**	**33,094.5**

	31 December 2014	31 December 2013
	(thousands of euros)	
Composition:		
Payables from non-exchange transactions	14,513.0	28,655.0
Payable from exchange transactions	2,690.3	4,439.5
Total accounts payable	**17,203.3**	**33,094.5**

10.1 Balances due to Member States represent the unspent balance of collections, assessed contributions received for prior years and the excess interest over the budget estimate, pending distribution to eligible Member States or their instructions on its use.

10.2 Payables to donors represent refunds on unspent contributions for closed projects and interest on donor’s funds. The treatment of the interest income earned, net of bank charges, exchange gains and losses, is governed by agreements with the donors. The balance in accounts payable denotes the accumulated interest until instructions regarding its utilization are received from the donor.

Note 11. Employee benefits

	31 December 2014			31 December 2013
	Actuarial valuation	*UNIDO valuation*	*Total*	
	(thousands of euros)			
Short-term employee benefits		1,968.3	1,968.3	**1,509.3**
Post-employment benefits	223,465.2		223,465.2	**175,060.6**
Other long-term employee benefits	6,160.9		6,160.9	**5,384.0**
Total employee benefit liabilities	**229,626.1**	**1,968.3**	**231,594.4**	**181,953.9**

	31 December 2014	31 December 2013
	(thousands of euros)	
Composition:		
Current	1,968.3	1,509.3
Non-current	229,626.1	180,444.6
Total employee benefit liabilities	**231,594.4**	**181,953.9**

Valuation of employee benefit liabilities

11.1 Employee benefit liabilities are determined by professional actuaries or calculated by UNIDO based on personnel data and past payment experience. At 31 December 2014, total employee benefit liabilities amounted to €231,594,376 (2013: €181,953,943), of which €229,626,101 (2013: €180,444,643) was calculated by the actuaries and €1,968,275 (2013: €1,509,300) was calculated by UNIDO.

Short-term employee benefits

11.2 Short-term employee benefits relate to salaries, home leave travel and education grants.

Post-employment benefits

11.3 Post-employment benefits are defined benefit plans consisting of the after-service health insurance, repatriation grants and end-of-service allowances, along with costs related to separation entitlements for travel and shipment of household effects.

11.4 After-service health insurance is a plan that allows eligible retirees and their eligible family members to participate in the full medical insurance plan, supplementary medical plans or the Austrian Gebietskrankenkasse (GKK) medical insurance plan.

11.5 End-of-service allowance is a benefit payable to UNIDO General Service staff at the Vienna duty station upon separation from service, and is based on length of service and final salary.

11.6 The repatriation grant is an entitlement payable mainly to Professional staff on separation, together with related costs in travel and shipment of household effects.

Other long-term employee benefits

11.7 Other long-term employee benefits consist of accrued annual leave payable when staff separate from service.

Actuarial valuations of post-employment and other long-term employee benefits

11.8 The liabilities arising from post-employment benefits and other long-term employee benefits are determined by independent actuaries, with valuation conducted as at 31 December 2014. These employee benefits are established in accordance with UNIDO Staff Regulations and Rules for staff members in the Professional and General Service categories.

Actuarial assumptions

11.9 The present value of an obligation is determined by discounting the estimated future payment required to settle the obligation resulting from employee service rendered in the current and prior periods, using interest rates of high-quality corporate bonds for the corresponding maturity years, together with a set of assumptions and methods.

11.10 The following assumptions and methods have been used to determine the value of post-employment and other long-term employee benefit liabilities at 31 December 2014:

- *Actuarial method*. Employee benefit obligations are computed using the projected unit credit method.
- *Attribution periods*. For after-service health insurance, the attribution period is the entry-on-duty date to the full eligibility date. For repatriation benefits, the attribution period is from the entry-on-duty date to the earlier of years of continuous service away from home country and 12 years of service. After 12 years, obligations are affected only by future salary increases. The attribution period for annual leave is from the date of hire to the separation date, subject to a maximum eligibility of 60 days. For the

end-of-service allowance, the attribution period is from the date of hire, which is the beginning of the credited service period, to the date the incremental benefit is earned.

- *Mortality*. Mortality rates for pre- and post-retirement are based on 2013 actuarial valuation of the United Nations Joint Staff Pension Fund, together with rates for withdrawal and retirement.
- *Discount rate*. 2.10 per cent (2013: 3.40 per cent) for after-service health insurance and 1.30 per cent (2013: 2.10 per cent) for repatriation, annual leave and end-of-service allowance.
- *Medical cost trend rates*. 4.94 per cent for 2014, 4.85 per cent for 2015, 4.77 per cent for 2016 and grading down to an ultimate rate of 4.5 per cent in 2019 and beyond.
- *Rate of salary increase*. 2.00 per cent (2013: 3.00 per cent), but varying according to age, category and individual progression.
- *Repatriation grant*. It is assumed that all Professional staff is eligible for repatriation benefits and will receive them upon separation from service.
- *Repatriation travel costs*. Decrease of 0.00 per cent (2013: 1.00 per cent) in future years.
- *Annual leave*. It is assumed that all staff are eligible for these benefits and will receive them upon separation from service. Accumulation rates of leave balances vary with years of service.

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

	1 percentage point increase	*1 percentage point decrease*
	(thousands of euros)	
Effect on year-end accumulated after-service health benefits obligation	47,819.3	(36,437.0)
Effect on combined service and interest cost	2,942.6	(2,180.7)

Reconciliation of defined benefit obligation

	After-service health insurance	*Repatriation benefits (Note 11.12)*	*Annual leave*	*End-of-service allowance*	*Total*
			(thousands of euros)		
Defined benefit obligation at 31 December 2013	**150,222.1**	**14,029.5**	**5,384.1**	**10,809.0**	**180,444.6**
Service costs	5,361.7	67.4	618.1	580.9	**6,628.1**
Interest costs	5,226.9	(140.0)	108.4	222.6	**5,417.9**
Actual gross benefit payments	(2,539.1)	(988.4)	(569.1)	(748.6)	**(4,845.2)**
Actuarial (gains)/losses	39,780.7	(2,750.8)	519.3	(172.9)	**37,376.3**
Actuarial (gains)/losses of joint operation	4,744.9	(229.5)	100.1	(11.1)	**4,604.4**
Defined benefit obligation at 31 December 2014	**202,797.2**	**9,988.2**	**6,160.9**	**10,679.9**	**229,626.1**

Annual expense for year 2014

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*End-of-service allowance*	*Total*
			(thousands of euros)		
Service cost	5,361.7	67.4	618.1	580.9	**6,628.1**
Interest costs	5,226.9	(140.0)	108.4	222.6	**5,418.0**
Total expense recognized in 2014	**10,588.6**	**(72.6)**	**726.5**	**803.5**	**12,046.0**

11.12 In 2014, the actuaries revised the calculation for repatriation benefits liability retrospectively for the years 2011-2013, which resulted in a reduction of the opening liability by €4,384,204 to €9,645,237 and accordingly a reduction in the cumulative service costs by €574,957, in the interest costs by €333,062 and in the actuarial losses by €3,476,185.

11.13 The cumulative effect on the opening employee benefits liabilities is a reduction by €4,384,204 to €176,060,421 and an increase in the accumulated surpluses to €215,637,104.

United Nations Joint Staff Pension Fund

11.14 UNIDO's financial obligation to the United Nations Joint Staff Pension Fund (UNJSPF) consists of its mandated contribution at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the UNJSPF.

11.15 In 2014, UNIDO's contributions paid to the UNJSPF amounted to €7,465,772 (2013: €7,623,955). The Consulting Actuary concluded that there was no requirement, as of 31 December 2013, for deficiency payments under Article 26 of the Regulations of the UNJSPF.

Note 12. Advance receipts

	31 December 2014	*31 December 2013*
	(thousands of euros)	
Assessed contributions in advance	763.5	9.5
Voluntary contributions in advance	48,817.3	38,230.6
Advances from Vienna International Centre-based organizations	5,920.2	6,417.8
Deferred project income	3,752.3	3,457.0
Buildings Management Services deferral	25,603.9	32,537.9
Performance obligation for voluntary contributions agreements	21,141.3	26,746.1
Total advance receipts	**105,998.5**	**107,398.9**

	31 December 2014	31 December 2013
	(thousands of euros)	
Composition:		
Advances from non-exchange transactions	74,474.4	68,443.2
Advances from exchange transactions	31,524.1	38,955.7
Total advance receipts	**105,998.5**	**107,398.9**

12.1 Assessed contributions received from Member States against future year's assessment are reflected in the advance receipts account.

12.2 Voluntary contributions in advance represent funds received from donors awaiting programming for specific project activities.

12.3 Advances from organizations based at the Vienna International Centre include funds received for special work programmes carried out by Buildings Management Services at the Vienna International Centre.

12.4 Deferred project income includes project clearing accounts held for the United Nations Development Programme and other United Nations and host governments-related projects implemented by UNIDO.

12.5 The fund balances held in the Buildings Management Services special account, reclassified under IPSAS joint venture classification, are reflected in the Buildings Management Services deferral account (see note 6).

12.6 Voluntary contributions received with conditions on their use are held in a liability account until the discharge of performance obligations, as stipulated in the agreements.

Note 13. Other liabilities

	31 December 2014	31 December 2013
	(thousands of euros)	
Deferred exchange gains	2,431.1	2,431.1
Accruals for goods/services received-but-not-paid	8,429.7	11,792.0
Other liabilities	3,826.9	6,327.3
Long-term guarantees – bank/rent deposit	96.3	96.5
Total other liabilities	**14,784.0**	**20,646.9**

	31 December 2014	31 December 2013
	(thousands of euros)	
Composition:		
Current	14,687.7	20,550.4
Non-current	96.3	96.5
Total other liabilities	**14,784.0**	**20,646.9**

13.1 Exchange gains represent the remaining balance of realized gains arising from the revaluation of euro-denominated cash and term deposits held in trust funds, prior to the introduction of euro management of technical cooperation projects in 2004.

13.2 Accruals are liabilities for goods and services that have been received or provided to UNIDO during the period and which have not been invoiced or formally agreed with the suppliers.

13.3 Other liabilities consist of remitted payments, miscellaneous payables and inter-fund balances.

Note 14. Fund balances

	Regular budget funds					
	General fund	*Regular programme of technical cooperation*	*Working Capital Fund*	*Technical cooperation funds*	*Other funds*	*Total*
				(thousands of euros)		
Opening balance 1 January 2014	**(125,564.7)**	**6,701.8**	**7,423.1**	**318,392.2**	**4,300.5**	**211,252.9**
Net surplus/(deficit) for the year	1,740.4	(907.2)	(0.1)	60,883.3	(5,492.3)	**56,224.1**
Subtotal	**(123,824.3)**	**5,794.6**	**7,423.0**	**379,275.5**	**(1,191.8)**	**267,477.0**
Movements during year						
Credits to Member States	-	-	-	(90.5)	-	**(90.5)**
Transfer (to)/from provision for delayed contribution	(2,693.6)	-	-	-	-	**(2,693.6)**
Actuarial gains/(losses)	(26,682.0)	-	-	(3,013.2)	(7,681.1)	**(37,376.3)**
Transfers (to)/from deferrals	(260.6)	-	-	-	-	**(260.6)**
Total movements during year	**(29,619.9)**	-	-	**(3,103.7)**	**(7,681.1)**	**(40,421.0)**
Closing fund balance 31 December 2014	**(153,460.5)**	**5,794.6**	**7,423.0**	**376,171.8**	**(8,872.9)**	**227,056.0**

Regular budget general fund

14.1 The negative regular budget general fund balance is as a consequence of unfunded long-term employee benefits amounting to €229.6 million as at 31 December 2014 (2013: €180.4 million).

Regular programme of technical cooperation

14.2 In accordance with General Conference decision GC.9/Dec.14, a special account was established for fully programmable appropriations under the regular programme of technical cooperation, not subject to financial regulations 4.2 (b) and 4.2 (c).

Working Capital Fund

14.3 General Conference decision GC.2/Dec.27 established the Working Capital Fund at $9 million for the purpose of financing budgetary appropriations pending the receipt of contributions or unforeseen and extraordinary expenditure. At subsequent sessions of the General Conference, the level of the Fund was progressively reduced to $6,610,000. With the introduction of euro assessment effective 1 January 2002, the amount was converted to euros in accordance with decision GC.9/Dec.15, resulting in a Working Capital Fund of €7,423,030. The Fund is financed through advances paid by Member States based on the scale of assessments approved by the General Conference.

Technical cooperation

14.4 Fund balances under technical cooperation funds represent the unexpended portion of voluntary contributions that are intended to be utilized in future operational requirements of the project activities.

Other funds

Movements in other funds

	Note	*1 January 2014*	*Movements during the year*	*Net surplus/deficit for the year*	*31 December 2014*
			(thousands of euros)		
Computer Model for Feasibility Analysis and Reporting fund	14.5	1,324.5	-	(328.6)	**995.9**
Operational budget	14.6	(5,551.9)	(7,681.1)	(3,303.5)	**(16,536.5)**
Fund for the Programme for Change and Organizational Renewal	14.7	5,659.5	-	(1,665.0)	**3,994.5**
Regular budget supplementary appropriation: Vienna International Centre security	14.8	570.3	-	0.5	**570.8**
Sales publication revolving fund	14.9	231.5	-	4.5	**236.0**
Commissary	6	1,890.9	-	(247.1)	**1,643.8**
Catering	6	175.7	-	46.9	**222.6**
Total		**4,300.5**	**(7,681.1)**	**(5,492.3)**	**(8,872.9)**

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

14.6 Income from programme support costs, charged in respect of programme expenditure under extrabudgetary technical cooperation activities, is recognized either at the time of the establishment of obligations or at the time of disbursement, whichever happens first, and is credited to the special account for financing the operational budget. The negative fund balance is a consequence of unfunded future liabilities accrued from employee benefits.

14.7 General Conference decision GC.13/Dec.15(h) established the special accounts from the unutilized balances of appropriations due to Member States in 2010 for financing the Programme for Change and Organizational Renewal.

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

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

14.10 General Conference decision GC.15/Dec.13(f) established the special account for financing the retention of office space in the biennium 2014-2015, up to the amount of €1,280,000. In 2014 Member States voluntarily renounced €942,896 for this purpose.

Note 15. Reserves

	Note	1 January 2014	Movement during the year (thousands of euros)	31 December 2014
Project personnel separation reserve	15.1	1,592.6	42.8	1,635.4
Insurance of project equipment		75.2	-	75.2
Statutory operating reserve	15.2/3	3,448.6	-	3,448.6
Separation indemnity reserve	15.4	5,499.3	-	5,499.3
Appendix D: reserve for compensation payments	15.5	3,244.9	(10.6)	3,234.3
Reserve for exchange rate fluctuations	15.6	4,572.7	457.5	5,030.2
Total		**18,433.3**	**489.7**	**18,923.0**

Project personnel separation reserve

15.1 This reserve consists mainly of the provision made to meet repatriation grant entitlements for personnel financed by technical cooperation resources other than inter-organization arrangements and certain trust funds and are calculated on the basis of 8 per cent of net base pay.

Statutory operating reserves

15.2 An operating reserve, established in respect of the special account for programme support costs, in accordance with Programme and Budget Committee conclusion 1989/4, at $5,504,190 was reduced to $4,300,000 (€4,828,900), in accordance with Industrial Development Board decision IDB.14/Dec.12. By decision IDB.30/Dec.2, the Board reduced the level of the operating reserve to €3,030,000. The purpose of the reserve is primarily to protect against unforeseen shortfalls in technical cooperation delivery and the related support cost income, for inflation and currency adjustments and to liquidate legal obligations in the case of abrupt termination of operating budget activities.

15.3 The Industrial Development Board, in decision IDB.2/Dec.7, authorized the freezing of the operational reserve of the Industrial Development Fund at $550,000 (€418,550). The purpose of the reserve is to ensure the financial liquidity of the Fund and to compensate for uneven cash flows.

Separation indemnity reserve

15.4 Pursuant to decision GC.6/Dec.15, paragraph (e), the amount of $9,546,732, representing the balance of appropriations for the biennium 1992-1993, which was actually received by the Organization, was transferred to a separation indemnity reserve in 1995. Pursuant to General Conference decision GC.7/Dec.17, the amount of $13,900,000 was transferred from the unencumbered balance of appropriations for the biennium 1994-1995 for the funding of the separation indemnity reserve to meet the cost of staff separations resulting from the 1998-1999 programme and budgets. Unlike the previous allocation from the biennium 1992-1993, the allocation from the biennium 1994-1995 was not supported by actual cash, as large arrears existed for that biennium. The cumulative payments made during the period 1995 to 2001 from both reserves amounts to $18,546,191. The remaining balance of $4,900,541 was converted to euros on 1 January 2002 using the exchange rate approved by the General Conference (GC.9/Dec.15). Accordingly, the balances attributable to the above two decisions are €1,109,698 and €4,389,609, respectively.

Reserve for compensation payments

15.5 A provision is made to meet potential liabilities for compensation payments under appendix D to the Staff Rules for personnel financed by technical cooperation resources other than inter-organization arrangements and certain trust funds and are calculated on the basis of 1 per cent of net base pay.

Reserve for exchange rate fluctuations

15.6 The General Conference in decision GC.8/Dec.16 authorized the Director General to establish a reserve, not subject to the provisions of financial regulations 4.2 (b) and 4.2 (c). Consequently, the reserve was established in the biennium 2002-2003 in order to protect the Organization from exchange rate fluctuations resulting from the introduction of the euro as a single currency for the preparation of the programme and budgets, appropriation and assessment, collection of contributions and advances, and currency of accounts. The amount transferred to the reserve in 2014 of €457,546 (2013: €14,816) is the difference between the euro value of actual dollars expended and the budgeted euro cost of those dollars.

Note 16. Revenue

	Note	*31 December 2014*	*31 December 2013*
		(thousands of euros)	
Assessed contributions	**16.1**	**71,936.8**	**76,540.1**
Voluntary contributions			
For technical cooperation		148,178.6	112,017.3
For support to regular activities		1,467.5	1,945.2
Subtotal, voluntary contributions	**16.2**	**149,646.1**	**113,962.5**
Investment revenue	**16.3**	**89.9**	**487.5**
Revenue producing activities			
Sales publications		100.7	87.3
Computer Model for Feasibility Analysis and Reporting		220.5	192.1
Other sales		228.1	190.0
Subtotal, revenue producing activities	**16.4**	**549.3**	**469.4**
Share of surplus/(deficit) of joint ventures			
Catering Service		46.8	(16.4)
Commissary		(247.1)	123.1
Subtotal, share of surplus/(deficit) of joint ventures	**16.5**	**(200.3)**	**106.7**
Miscellaneous income			
Transfer (to)/from reserve for exchange fluctuation	**16.6**	(457.5)	(14.8)

	Note	31 December 2014	31 December 2013
		(thousands of euros)	
Other	**16.7**	52.5	0.7
Subtotal, miscellaneous income		**(405.0)**	**(14.1)**
TOTAL REVENUE		**221,616.8**	**191,552.1**

16.1 The General Conference approved an amount of €143,743,513 for the regular budget for the biennium 2014-2015 (decision GC.15/Dec.16), which is financed from assessed contributions by Member States. Accordingly, €71,936,799, representing one-half of the biennial amounts assessed, adjusted by the amounts due from rescinding Member States of €65,043. Payments made by a Member State are credited first to the Working Capital Fund and then to the contributions due, in the order in which the Member State was assessed (see financial regulation 5.5(c)).

16.2 Voluntary contributions are recognized upon the signing of a binding agreement between UNIDO and the donor, provided that there are no conditions limiting the use of the funds. The increase in 2014 is mainly attributable to the increased annual phasing of project budgets.

16.3 Investment revenue represents interest earned and accrued on short-term deposits held with financial institutions.

16.4 Income from revenue-producing activities consists of sales of publications and the Computer Model for Feasibility Analysis and Reporting, and cost recovery for technical services.

16.5 The UNIDO share of net surplus, or deficit, on the catering and Commissary operations is recognized on the basis of the cost-sharing formula of the Vienna-based organizations for common services (see note 6).

16.6 The miscellaneous income represents the amount transferred to the reserve for exchange rate fluctuations for 2014 as a result of a euro surplus on actual dollar spending against the budgeted rate (see paragraph 15.6).

16.7 Other miscellaneous income includes proceeds from sales of property, plant and equipment, and from bonuses received from airlines.

Contributions in kind

16.8 Contributions of services in kind estimated at €1,435,909 (2013: €1,401,575) were received mainly in support of UNIDO projects and field office operations and are measured at fair value. In accordance with IPSAS standard 23, UNIDO has elected not to recognize the contributions on the face of the financial statements. Details of in-kind contributions of services received are as follows:

	31 December 2014	31 December 2013
	(thousands of euros)	
Contributions of services in kind for the use of:		
Office space	1,104.3	1,007.9
Furniture and fixtures	5.6	10.5
Communications and information technology equipment	8.3	34.4
Vehicles	52.3	81.1
Utilities	25.1	21.3
Other services	10.9	28.8

Contribution to conferences, workshops and training	76.1	78.9
Personnel services	154.8	138.6
Total	**1,437.4**	**1,401.5**

Note 17. Expenses

	Note	*31 December 2014*	*31 December 2013*
		(thousands of euros)	
Staff salaries		37,792.7	38,732.6
Staff entitlements and allowances		27,478.9	26,620.6
Temporary assistance		1,223.3	1,612.7
Project personnel and consultancies		40,390.8	40,898.9
Subtotal, salaries and employee benefits	**17.1**	**106,885.7**	**107,864.8**
Regular travel		1,430.4	2,511.3
Project travel		13,452.1	8,011.1
Rental, utilities and maintenance		3,684.8	3,937.9
Inventory consumed/distributed		193.4	141.6
Information technology, communications and automation		3,686.4	5,986.9
Expendable equipment		1,461.8	3,497.0
Other operating costs		7,571.7	7,122.5
Project operating costs		349.9	2,769.6
Subtotal, operating costs	**17.2**	**31,830.5**	**33,977.9**
Project contractual services	**17.3**	44,591.6	70,120.6
Equipment expensed	**17.4**	4,520.3	15,646.0
Depreciation and amortization	**7,8**	3,003.0	2,079.7
Other expenses	**17.6**	-	453.90
TOTAL EXPENDITURE		**190,831.1**	**230,142.9**

17.1 Salaries and employee benefits are for UNIDO staff, consultants and holders of special service agreements. Project personnel costs include costs for experts, national consultants, administrative support personnel and project travel.

17.2 Operating costs include travel, utilities, field office operations, United Nations system jointly financed activities, information technology (IT) and communications, and contributions to common services at the Vienna International Centre.

17.3 Project contractual services represent subcontracts entered into for project implementation activities. The decrease in 2014 is attributable to the reduction by €19,512,057 in project implementation, mainly for the Montreal Protocol Fund.

17.4 The expenses for equipment represent machinery and equipment below the capitalization threshold, together with technical cooperation equipment over which UNIDO has no control. The full application of IPSAS 17 for technical cooperation assets resulted in additional PPE capitalization of €9,714,917 during 2014 (Note 7.2).

17.5 Currency translation differences, primarily from revaluation of non-euro bank balances, investments, assets and liabilities at the end of the period are mainly attributable to an increase in the year-end dollar/euro exchange rate from 0.725 in 2013 to 0.820 in 2014.

17.6 Other expenses in 2014 include net book value of disposed assets and proceeds from disposal.

Note 18. Statement of comparison of budget and actual amounts

18.1 The budgets and accounts of UNIDO are not prepared using the same basis. The statement of financial position, statement of financial performance, statement of changes in net assets and statement of cash flow are prepared on a full accrual basis, using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts (statement 5) is prepared on a modified cash basis of accounting.

18.2 Basis differences occur when the approved budget is prepared on a basis that is not the same as the accounting basis, as stated in paragraph 18.1 above.

18.3 Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNIDO for the purpose of comparison of budget and actual amounts.

18.4 Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared.

18.5 Presentation differences are the result of differences in the format and classification schemes adopted for the presentation of the statement of cash flow and the statement of comparison of budget and actual amounts.

18.6 Reconciliation between the actual amounts in the statement of comparison of budget and actual amounts (statement 5) and in the statement of cash flow (statement 4) for the period ended 31 December 2014 is presented below:

	Operating	*Investing*	*Financing*	*Total*
		(thousands of euros)		
Balance of appropriations (statement 5)	10,354.0	-	-	**10,354.0**
Basis differences	(1,781.9)	(730.5)	(90.5)	**(2,602.9)**
Presentation differences	(27,456.3)	-	-	**(27,456.3)**
Entity differences	5,281.6	(10,029.2)	-	**(4,747.6)**
Actual amount in the statement of cash flow (statement 4)	**(13,602.6)**	**(10,759.7)**	**(90.5)**	**(24,452.8)**

18.7 Budget amounts have been classified based on the nature of expenses in accordance with the programme and budgets approved for the biennium 2014-2015 by the General Conference at its fifteenth session (GC.15/Dec.16) for regular and operational budgets of the Organization.

Explanation of material differences in the regular budget

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

Staff costs

18.9 The underutilization of budgeted staff costs was mainly attributable to higher than budgeted vacancy factors for Professional and General Service posts. Uncertainty with respect to payment of assessed contributions required the Organization to be prudent in its spending under the regular budget, especially in terms of staff costs, including consultancy services, as these represent the largest component of the regular budget. Prudent spending also resulted in the budget for holding expert group meetings being underutilized by €0.76 million.

Official travel

18.10 The budget for official travel was underutilized by €0.85 million, for both travel on official business, which was underspent by €0.73 million, and international travel of UNIDO representatives, which was marginally underspent, by €0.12 million. In addition to conservative spending, savings were achieved through concerted efforts to use information and communications technology instead of physical travel.

Operating costs

18.11 Savings in operating costs in the amount of €3.98 million were mainly the result of reduced requirements for UNOV Security and Safety services of €0.38 million and a reduction in UNIDO’s contribution to the common Buildings Management Service of €0.61 million, both which resulted from a separate funding pool that was secured to offset the cost of occupying two floors at the VIC. Further, translation and document production reported an underutilization of €1.16 million pending submission of the last quarterly billing from UNOV Conference Services, while additional late charges of the operating costs for the field office network is expected not to exceed €0.80 million.

Information and communications technology

18.12 The marginal underutilization of €0.92 million in resources for information and communications technology is mainly attributable to reduced usage of the budget lines for IT assets by €0.15 million, IT contractors by €0.30 million and communications service charges by €0.43 million, as UNIDO is making every concerted effort at technological efficiency by achieving more with less resources.

Regular programme of technical cooperation and special resources for Africa

18.13 Resources for the regular programme of technical cooperation were administered under the special account created for that purpose to which the full appropriation had been transferred. An underutilization of €0.60 million was recognized under Special Resources for Africa.

Note 19. Segment reporting

A: Statement of financial position by segment as at 31 December 2014

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
			(thousands of euros)		
ASSETS					
Current assets					
Cash and cash equivalents	32,586.8	348,032.0	57,124.3	-	**437,743.1**
Accounts receivable (non-exchange transactions)	10,078.7	110,467.6	896.8	-	**121,443.1**
Receivables from exchange transactions	9.8	930.7	10,277.9	-	**11,218.4**
Inventories	-	-	1,297.7	-	**1,297.7**
Other current assets	4,577.3	15,312.7	70.7	-	**19,960.7**
Subtotal, current assets	**47,252.6**	**474,743.0**	**69,667.4**	-	**591,663.0**
Non-current assets					
Receivables	387.6	-	-	-	**387.6**
Share in net assets/equity of joint ventures accounted for using the equity method	-	-	1,057.5	-	**1,057.5**
Property, plant and equipment	973.4	10,467.2	6,379.6	-	**17,820.2**
Intangible assets	162.4	31.7	3,117.8	-	**3,311.9**
Other non-current assets	409.0	101.1	808.9	-	**1,319.0**
Subtotal, non-current assets	**1,932.4**	**10,600.0**	**11,363.8**	-	**23,896.2**
TOTAL ASSETS	**49,185.0**	**485,343.0**	**81,031.2**	-	**615,559.2**

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
			(thousands of euros)		
LIABILITIES					
Current liabilities					
Accounts payable (exchange transactions)	280.3	490.4	1,919.6	-	**2,690.3**
Employee benefits	623.4	558.8	786.1	-	**1,968.3**
Transfers payable (non-exchange transactions)	4,832.5	9,670.4	10.1	-	**14,513.0**
Advance receipts	763.5	73,734.5	31,500.5	-	**105,998.5**
Other current liabilities	3,183.4	9,916.7	1,587.6	-	**14,687.7**
Subtotal, current liabilities	**9,683.1**	**94,370.8**	**35,803.9**	-	**139,857.8**
Non-current liabilities					
Employee benefits	175,014.6	3,582.5	51,029.0	-	**229,626.1**
Other non-current liabilities	-	93.9	2.4	-	**96.3**
Subtotal, non-current liabilities	**175,014.6**	**3,676.4**	**51,031.4**	-	**229,722.4**
TOTAL LIABILITIES	**184,697.7**	**98,047.2**	**86,835.3**	-	**369,580.2**
NET ASSETS/EQUITY					
Accumulated surpluses/(deficits): fund balances	(147,761.6)	321,935.7	(3,342.2)	-	**170,831.9**
Current period surplus/(deficit)	1,740.3	59,976.2	(5,492.4)	-	**56,224.1**
Reserves	10,508.6	5,383.9	3,030.5	-	**18,923.0**
TOTAL NET ASSETS/EQUITY	**(135,512.7)**	**387,295.8**	**(5,804.1)**	-	**245,979.0**
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**49,185.0**	**485,343.0**	**81,031.2**	-	**615,559.2**

B: Statement of financial performance by segment for the year ended 31 December 2014

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
			(thousands of euros)		
INCOME/REVENUE					
Assessed contributions	71,936.8	-	-	-	**71,936.8**
Voluntary contributions	1,467.5	148,178.6	-	-	**149,646.1**
Investment revenue	33.4	45.0	11.5	-	**89.9**
Revenue producing activities	160.4	0.8	12,794.4	(12,406.3)	**549.3**
Share of surplus/(deficit) of joint ventures	-	-	(200.3)	-	**(200.3)**
Other	2,075.2	4,266.8	(44.2)	(6,702.8)	**(405.0)**
TOTAL REVENUE	**75,673.3**	**152,491.2**	**12,561.4**	**(19,109.1)**	**221,616.8**
EXPENDITURE					
Salaries and employee benefits	51,827.3	40,125.2	14,933.2	-	**106,885.7**
Operational costs	14,226.9	15,634.9	1,968.7	-	**31,830.5**
Contractual services	1,505.6	42,796.2	289.8	-	**44,591.6**
Technical cooperation equipment expensed	5.7	4,514.6	-	-	**4,520.3**
Depreciation and amortization	554.4	1,432.4	1,016.2	-	**3,003.0**
Other expenses	6,702.9	12,278.5	127.7	(19,109.1)	-
TOTAL EXPENDITURE	**74,822.8**	**116,781.8**	**18,335.6**	**(19,109.1)**	**190,831.1**
Currency translation differences	(889.8)	(24,266.8)	(281.8)	-	**(25,438.4)**
SURPLUS/(DEFICIT) FOR PERIOD	**1,740.3**	**59,976.2**	**(5,492.4)**	-	**56,224.1**

19.1 Some internal activities lead to accounting transactions that create inter-segment revenue and expense balances in the financial statements.

19.2 During the year ended 31 December 2014, activities have created inter-segment balances in the amount of €4,241,028, €2,461,800 and €12,406,256 (2013: €4,653,000, €3,070,200 and €13,605,251) in the statement of financial performance for the regular programme of technical cooperation, special resources for Africa and programme support costs, respectively. Inter-segment transfers are measured at the price at which the transactions occur.

19.3 Accumulated fund balances under technical cooperation funds and other funds represent the unexpended portion of contributions that are carried forward to be utilized in the future operational requirements under the respective activities.

19.4 Cash and short-term investments have restrictions on their availability for use based on the fund concerned since funds are earmarked for specific activities.

Note 20. Commitments and contingencies

20.1 *Leases*. Operating costs include payments recognized as operating lease expenses during the year in the amount of €692,258 (2013: €1,432,020). The amount includes minimum lease payments. No sublease payments or contingent rent payments were made or received.

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

	Within 1 year	*1 to 5 years*	*After 5 years*	*Total*
		(thousands of euros)		
31 December 2014	400.9	4.9		405.8
31 December 2013	403.0	7.4	-	410.5

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

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

20.4 There are no agreements that contain purchase options.

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

	31 December 2014	*31 December 2013*
	(thousands of euros)	
Regular budget	2,212.2	6,090.3
Trust fund	16,339.4	24,511.6
Montreal Protocol on Substances that Deplete the Ozone Layer	36,258.5	23,148.6
Global Environment Facility	48,533.3	30,950.3
Industrial Development Fund	9,226.9	8,415.1

	31 December 2014	31 December 2013
	(thousands of euros)	
Inter-organization arrangements	9,283.6	320.7
Regular programme of technical cooperation	3,455.1	3,910.0
Special services and other	52.5	2,539.9
Total commitments	**125,361.4**	**99,886.5**

20.6 *Contingent liabilities*. The contingent liabilities of the Organization consist of appeal cases pending at the Administrative Tribunal of the International Labour Organization by both current and separated staff members. The Organization is not in a position to measure probability of rulings in favour of complainants or predict exact award of damages. However, based on the various claims, the contingent liabilities at year-end amounted to €2,583,398 (2013: €2,478,150).

20.7 Contingent liabilities on pending cases under Appendix D of the Staff Rules for possible retroactive payment amounted to €291,100 (2013: €111,288) and additional recurring monthly payments of €14,350. There are four Joint Appeals Board cases pending panel meetings to take place and no possible liabilities or obligations in connection with these cases could be estimated. In addition, the UNIDO Staff Pension Committee (SPC) may, pending its decision, agree with the UNJSPF to share the cost for a medical board, which may mean an obligation of €10,000 for UNIDO.

Note 21. Vienna International Centre

21.1 UNIDO Headquarters are located at the Vienna International Centre together with other organizations under a 99-year lease with Austria for a nominal rent of 1 Austrian schilling per year. The total area allocated to UNIDO in 2014 for occupied and common/staff services facilities was 45,618 square metres (the same as in 2013).

21.2 An agreement between Austria and the organizations based in the Vienna International Centre provides for a common fund to finance the cost of major repairs and replacement of the buildings, facilities and technical installations, which are the property of Austria. The fund is administered by UNIDO through a joint committee.

21.3 Contributions to the fund are shared equally between Austria and the Vienna-based organizations, with the contributions of the organizations being set based on a cost-sharing ratio. The UNIDO contribution to the fund in 2014 was €271,200 (the same as in 2013).

Note 22: Losses, ex gratia payments and write-offs

22.1 No ex gratia payments were made by UNIDO during 2014 and 2013.

22.2 The value of property, plant and equipment written off during the year due to loss/theft amounts to €21,483 (2013: €40,069).

Note 23. Related party and other executive management disclosure

Key management personnel

	No. of individuals	*Aggregate remuneration*	*Other compensations*	*Total remuneration 2014*	*Outstanding advances against entitlements 31 December 2014*
			(thousands of euros)		
Director General	1	362.5	196.4	558.9	0.0
Deputy to the Director General	1	189.1	0.0	189.1	0.0
Managing Directors	2	460.7	0.0	460.7	0.0

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

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

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

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

23.5 Key management personnel are ordinary members of the United Nations Joint Staff Pension Fund.

23.6 Advances may be made against entitlements in accordance with staff rules and regulations. There were no outstanding advances against entitlements of key management personnel as at 31 December 2014.

23.7 UNIDO retained the number of managing directors during 2014. One officer-in-charge at the managing director level retired in 2014, however another senior manager was assigned to act in the same capacity. The above table discloses the prorated remuneration received by the respective managers for the period of service.

Note 24. Events after reporting date

26.1 The UNIDO reporting date is 31 December 2014. As at the date of signing of the present accounts, there have been no material events, favourable or unfavourable, between the reporting date and the date when the financial statements have been authorized for issue, as specified in certification, that would have affected the statements.