IDB.45/3-PBC.33/3

United Nations Industrial Development Organization

Distr.: General
27 April 2017

Original: English

Industrial Development Board
Forty-fifth session
Vienna, 27-29 or 30 June 2017
Item 4(a) of the provisional agenda
Report of the External Auditor for 2016

Programme and Budget Committee
Thirty-third session
Vienna, 16-18 May 2017
Item 4 of the provisional agenda
Report of the External Auditor for 2016

Report of the External Auditor on the accounts of the United Nations Industrial Development Organization for the financial year 1 January to 31 December 2016*

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.17-01756 (E) 270417 280417

President
Federal Court of Auditors
Germany

Adenauerallee 81
53113 Bonn
Telephone +49 99 721 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

7 April 2017

Excellency,

I have the honour to present to the 45th session of the Industrial Development Board, through the 33rd 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 2016. 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

AMS	SAP Asset Management System
APT	Accounts and Payments Division
BMS	Buildings Management Services
CPNOS	Capacity Plan and New Organization Structure of BMS
DG	Director General
EA	External Auditor
ERP	Enterprise Resource Planning
FR	Financial Regulations and Rules of UNIDO
GC	General Conference
GES	General Support Services Unit
HR	Human Resources
HRM	Department of Human Resources Management
HR Specialist	Human Resources Specialist
INTOSAI	International Organization of Supreme Audit Institutions
IOE	Office of Internal Oversight and Ethics
IPSAS	International Public Sector Accounting Standards
ISA	Individual Service Agreement
ISAs	International Standards on Auditing
ISSAI	International Standards for Supreme Audit Institutions
IT	Information Technology
ITC	Department of Information Technology and Communications
LVA	Low Value Asset
LVAI	Low Value Attractive Items
MCIF	Major Capital Investment Fund
Management	UNIDO Management
PMM	Property Management Manual
PPE	Property, Plant and Equipment
PPM	Portfolio and Project Management
SAP GUI	SAP Graphical User Interface
SAVCCA	Special Account of Voluntary Contributions for Core Activities
SRM	UNIDO Manual for Asset Creation in Supplier Relationship Management
TC	Technical Cooperation
TIS	Technology and Information Systems Division
ToR	Terms of Reference
TRS	Treasury Services Unit
UNIDO	United Nations Industrial Development Organization
UNSSS	United Nations Security and Safety Service
VBO(s)	Vienna Based Organization(s)
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 2016. 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 Management	2. The Director General (hereinafter "DG") is responsible for preparing the financial statements in accordance with Article X of the Financial Regulations and Rules of UNIDO (hereinafter "FR") and in conformity with the International Public Sector Accounting Standards (hereinafter "IPSAS").
Responsibility of the External Auditor	3. In accordance with Article XI of FR, my responsibility is to express an opinion on such financial statements based on my audit.
I conducted my audit in conformity with the International Standards on Auditing	4. I conducted my audit, pursuant to Article XI of FR, in conformity with the International Standards on Auditing (hereinafter "ISAs") 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	5. 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 (hereinafter "ToR") governing the audit of UNIDO financial statements, I examined UNIDO 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 also reviewed specific issues concerning the administration and management of UNIDO. I believe that my audit provides a reasonable basis for the audit opinion.
The financial statements present a fair view of the financial position	6. 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 2016, that they were prepared in accordance with IPSAS and the accounting policies stated by UNIDO, and that the transactions were conducted in accordance with FR.
I issued an unqualified opinion on the financial statements	7. The audit revealed no shortcomings or errors that I considered material with regard to the accuracy, completeness and validity of the financial statements as a whole. Therefore, I expressed an unqualified audit opinion on UNIDO financial statements for 2016.

B. Audit Procedure

B.1. Scope of the Audit

President of the Bundesrechnungshof appointed as External Auditor of UNIDO	8. Pursuant to the General Conference (hereinafter "GC") decision GC.16/Dec.14 and the Federal German Parliament election as President of the Bundesrechnungshof (German Supreme Audit Institution), the undersigned, Mr Kay Scheller, is the appointed External Auditor (hereinafter "EA") of UNIDO until 30 June 2018.

Financial statements for the financial year from 1 January to 31 December 2016

9. My team and I audited the financial statements of UNIDO for the financial year from 1 January to 31 December 2016. The financial statements include the statement of financial position as at 31 December 2016, the statement of financial performance for the year ended 31 December 2016, the statement of changes in net assets for the year ended 31 December 2016, the cash flow statement for the year ended 31 December 2016, the statement of comparison of budget and actual amounts for the year ended 31 December 2016 and the notes to the financial statements. We also examined related financial accounts and transactions.

Responsibility of Management

10. DG is responsible for the preparation and fair presentation of the financial statements in accordance with 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

11. 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 FR, in conformity with ISAs 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 Management

12. My report on financial year 2016 contains the main observations, findings and recommendations. The financial statements of UNIDO, as well as my audit report and audit opinion, were discussed with UNIDO management (hereinafter “Management”). DG took note of the report contents and agreed with the findings.

Reporting to PBC and IDB

13. The EA 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

14. According to the requirements of ISAs, 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 GC; whether revenue and expenses were properly classified and recorded in accordance with FR; and whether the financial statements present a fair view of the financial position as at 31 December 2016. This includes the correctness of year-end balances of all UNIDO funds as part of UNIDO accounts.

Performance audits with respect to economy, efficiency and effectiveness

15. In addition, the ISSAI provide guidance on the conduct of performance audits. In accordance with the ToR governing the audit of UNIDO financial statements, I examined UNIDO 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

16. The audit was conducted by 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

17. 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 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 financial statements.

Random sample

18. Using professional audit software, my team analysed UNIDO data records and transactions. My team took a random sample and verified if transactions and related documents had been filed in accordance with the regulations as part of their work thus cross-checking the basis for payment and the necessary authorizations. None of the transactions examined gave cause for concerns.

Areas covered in this report

19. My report includes observations and recommendations intended to contribute to improving the financial management and control of UNIDO. My audit work mainly covered the financial audit of the 2016 financial statements. In accordance with Regulation 11.4 of FR, my team audited the Framework for Individual Service Agreements (hereinafter "ISA") as well as UNIDO asset management and continued their audits on Buildings Management Service (hereinafter "BMS") and on physical information technology (hereinafter "IT") security. At the end of my report, I will present our findings on the process of following up on 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

20. Notwithstanding the observations in this report, my examination revealed no shortcomings or errors that I considered material with regard to the 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 financial statements. Therefore, I expressed an unqualified opinion on UNIDO financial statements for 2016.

C. Analysis of the Financial Statements

C.1. Internal Control

Internal control system in place

21. My team used special software to examine whether user rights relating to postings, approval, orders and payment release comply with segregation of duties. Based on this testing, I concluded with reasonable assurance that UNIDO has a reliable internal control system in place to ensure completeness, occurrence, measurement, regularity and disclosure in the 2016 financial statements.

Authorizations in SAP checked by "CheckAud"

22. UNIDO deploys a SAP Enterprise Resource Planning (hereinafter "ERP") system for bookkeeping and other core business functions. System users need authorizations defined by their activities and responsibilities. My team checked by means of the "CheckAud for SAP Systems" audit software authorizations for user administration and financial accounting granted to 198 selected key users of the UNIDO headquarters and field offices.

C.1.1. Segregation of duties in the SAP payment process

SAP authorizations

23. In UNIDO, the SAP system supports the payment process. Authorizations protect business objects and SAP transactions. SAP users need to have corresponding authorizations. The activities and responsibilities of the employee define the authorizations.

Segregation of duties

24. When granting authorizations to users, the relevant officials need to take into account the principle of segregation. Segregation of duties is the means to ensure that not only one individual has the exclusive control over a transaction. The principle of segregation of duties is reflected in the UNIDO Internal Control Framework.

Role of approving officer

25. Pursuant to para. 133 of this framework, segregation of duties involves, inter alia, the segregation of the role of the approving officer for payments.

Payment procedure	26. To pay, for example, a vendor, the invoice data has to be entered into the SAP system. All payments posted by a user are automatically blocked. In a second step, the invoice has to be verified or unblocked for further processing. For unblocked payments, the Treasury Services Unit (hereinafter "TRS") can carry out the payment program.
Authorizations checked	27. My team checked authorizations granted to users in Accounts and Payments Division (hereinafter "APT") for posting and unblocking payments.
List of users	28. Management provided a list of users authorized to the transaction codes they needed. Posting of payments required certain transactions.
Removing of payment block	29. To unblock the blocked payment, a user has to call a specific transaction and then remove the payment block. For the removal itself, a special authorization is needed.
Nine users authorized	30. Management also provided a list of users who were authorized to carry out specific transaction and to remove the payment block. In conclusion, nine users in the APT were authorized to carry out the above-mentioned transactions and to remove the payment block.
Risk of fraudulent activities	31. In my view, such a cumulation of authorizations increases the risk of fraudulent activities. Ideally, one user should not be authorized to post a payment and be able to remove the payment block as well. If there are organizational reasons that a user has to do both, the number of users authorized should be limited to the minimum required.
Recommendation(s)	32. I recommend that UNIDO examine whether it is necessary that a total of nine staff members are authorized to post and unlock payments and reduce the number to the minimum required.
Management's response	33. UNIDO will remove unnecessary access to create payment vouchers for certifying officers, who also have authorization to release the payment block. There will be an exception with regard to creating replenishment vouchers where only UNIDO internal vendors (imprest accounts) will be allowed in the document entry. This functionality is currently managed by APT and is needed until TRS takes over internal UNIDO cash transfers function along with global banking bank account management.
Follow-up	34. My team and I will follow up on the process.

C.1.2. User manuals for SAP processes

SAP system provides two user interfaces	35. SAP has supported business processes in UNIDO since 2012. The UNIDO SAP system makes two user interfaces available. For some business processes such as payment processes, staff members use SAP Graphical User Interface (hereinafter "SAP GUI") to enter transaction codes and data fields in various SAP transaction screens. For other business processes such as Procurement and Travel Management, they have to use the SAP Production Portal which is based on SAP GUI. In contrast to SAP GUI, the Production Portal is process-oriented and more user-friendly.
Manuals can provide assistance	36. Handling the two SAP user interfaces and carrying out business processes therein is not self-explanatory and requires highly specialist knowledge. In this situation, user manuals can provide valuable assistance.
User Manuals	37. My team checked in APT, for example, whether user manuals were available. APT provided some basic manuals for the Production Portal and SAP GUI. For other business processes, in particular such which are carried out periodically such as general accounting, year-end-closure, reconciliation and cleaning, no user manuals were available.
User support	38. In my view, handling business processes in the SAP system can be difficult and error-prone for users, especially for new staff members. Incorrect postings or inaccurately created files in special SAP modules, for example asset creation, have to be cleared and settled individually. This applies in particular to key business

	processes that have to be carried out monthly, quarterly or annually. Although UNIDO has already issued some user manuals, it should extend this type of user support to other key business processes and keep it up to date.
Recommendation(s)	39. I recommend that UNIDO make user manuals available for all key business processes and basic activities in all organizational units that work with the SAP system.
Management's response	40. The recommendation is in principle acceptable. As the observation properly states, there are already many manuals available, and not only for finance related processes. However, the production of manuals is a very resource-intensive process. The person should be conversant with the topic; should be a good technical writer and should have the necessary didactical skills. Under the current budgetary constraints it is not possible to set aside significant resources to acquire sufficient specialized expertise and staff on board cannot produce (or even assist the production of) manuals due to the lack of capacity. Therefore, if the recommendation is maintained, only slow progress will be possible in terms of its implementation, since priority must be accorded to sustaining daily operations.
Follow-up	41. My team and I will follow up on the process.

C.2. International Public Sector Accounting Standard

IPSAS	42. Management adopted IPSAS as the basis of accounting. The first financial statements based on IPSAS were prepared for the financial year 2010.
Transitional provisions	43. As permitted for the first-time adoption of IPSAS, Management applied transitional provisions. The five-year transitional period ended in 2014. Therefore, all buildings used by UNIDO are now recognized in the financial statements.
Adoption of IPSAS 34 to 38	44. UNIDO has adopted IPSAS 34 to 38 with effect from 1 January 2016. These Standards replace IPSAS 6 to 8 and deal with Separate and Consolidated Financial Statements (IPSAS 34 and 35 respectively) as well as Accounting for Investments in Associates and Joint Ventures (IPSAS 36), Joint Arrangements (IPSAS 37) and Disclosure of Interests in Other Entities (IPSAS 38).
De-recognition of operations	45. The adoption of IPSAS 34 to 38 resulted in de-recognition of the Commissary and Catering operations, effective on 1 January 2016. Subsequently, UNIDO adjusted the opening balances for financial year 2016 of investments in equity of joint ventures, revenue and related amount of net assets. Figures are disclosed as "financial year 2015 restated". Therefore, all figures of financial year 2015 and financial year 2016 are presented on a comparative basis.
Confirmation	46. I confirm that de-recognition of Commissary and Catering operations is IPSAS-compliant.

C.3. Statement of Financial Position

Total net assets increased	47. Current assets increased by almost 10 per cent. Non-current assets remained rather stable. Whereas current liabilities declined by 22 per cent, non-current liabilities increased by 15 per cent. As a result, UNIDO total net equity grew by 49 million euros (13.4 per cent) to 414.6 million euros. The trend from 2013 to 2016 is shown in Table 1.

	Year as at 31 December				
	2013	2014 (restated)	2015	2015 (restated)	2016
Current assets					
million euros	551.0	556.7	633.9		692.2
percentage change	*(4.8%)*	*1.0%*	*13.9%*		*9.2%*
Non-current assets					
million euros	21.8	108.9	142.2	140.9	138.0
percentage change	*75.8%*	*400.2%*	*30.7%*	*29.3%*	*(2.9%)*
Total assets					
million euros	**572.8**	**665.6**	**776.2**	**774.9**	**830.3**
percentage change	***(3.1%)***	***16.2%***	***16.6%***	***16.4%***	***7.0%***
Current liabilities					
million euros	162.6	144.8	154.2		120.5
percentage change	*20.2%*	*(10.9%)*	*6.5%*		*(21.9%)*
Non-current liabilities					
million euros	180.5	273.2	256.5		295.3
percentage change	*(1.3%)*	*51.3*	*(6.1%)*		*15.1%*
Total liabilities					
million euros	**343.1**	**418.0**	**410.7**		**415.8**
percentage change	***7.8%***	***21.8%***	***(1.8%)***		***1.2%***
Total net assets/equity					
million euros	**229.7**	**247.5**	**365.6**	**364.3**	**414.6**
percentage change	***(15.9%)***	***7.8%***	***47.7%***	***47.2%***	***13.4%***

Table 1: Statement of financial position

Growing liabilities

48. The rising value of assets is mainly caused by increased short-term deposits. Liabilities grew due to increasing employee benefits. This increase has been continuing during the last years. Post-employment benefits are expected to rise continuously in the future resulting in the continuing growth of non-current liabilities. This might have a negative impact on UNIDO total net assets if assets do not grow at the same rate.

Recommendation(s)

49. In my view, the development of employee benefits bears considerable risks for the future. Considering the current situation, these commitments are not provided for. Once more, I recommend that Management monitor closely the development over the next years and develop an appropriate approach to ensure future funding.

Management's response

50. Non-current liabilities related to employee benefits grew mainly due to changes in the actuarial assumptions. UNIDO serves these liabilities on a "pay-as-you-go" basis, a method that was recently confirmed by the United Nations General Assembly Advisory Committee on Administrative and Budgetary Questions (ACABQ). According to Management's assessment, the annual servicing costs have peeked or will soon do so due to natural developments of the population and the changes in HR policies and practices in the past years. Nonetheless, management will continue monitoring the situation closely.

Follow-up

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

C.3.1. Assets

C.3.1.1. Cash and cash equivalents

Overall cash situation satisfactory

52. The overall cash situation of UNIDO is satisfactory. Cash and cash equivalents comprise: cash in the bank and on hand; term deposits with a maturity up to 12 months; cash and cash equivalents held in field offices. The trend from 2013 to 2016 is shown in Table 2.

Euro/dollar exchange rate

53. In 2016, the euro’s weakness against the dollar continued in the foreign exchange market. The year-end euro/dollar exchange rate kept almost stable at 1.046 compared to 1.094 in 2015. UNIDO foreign exchange gain decreased from 33 million euros in 2015 to 4.7 million euros in 2016.

Term deposits increased

54. Cash and cash equivalents increased by 15.4 per cent to a total of 507.2 million euros compared to 439.7 million euros in 2015. Whereas cash in the bank and on hand and held in field offices remained almost stable, term deposits increased by 73.1 million euros to 387.5 million euros. Interest rates on euro call accounts and short-term deposits remained rather low, whereas interest rates for US-dollar deposits increased considerably. The trend from 2013 to 2016 is shown in Table 2.

	Year as at 31 December				
	2013	**2014 (restated)**	**2015**	**2015 (restated)**	**2016**
Cash in the bank and on hand					
million euros	132.5	99.6	123.0		116.4
percentage change	*112.4%*	*(24.9%)*	*23.5%*		*(5.3%)*
Term deposits with original maturity less than 12 months					
million euros	304.2	340.7	314.4		387.7
percentage change	*(12.9%)*	*12.0%*	*(7.7%)*		*23.3%*
Cash and cash equivalents held in field offices					
million euros	2.0	2.4	2.3		3.2
percentage change	*(34.4%)*	*19.5%*	*(3.5%)*		*35.5%*
Cash and cash equivalents					
million euros	**438.7**	**442.7**	**439.7**		**507.2**
percentage change	***5.8%***	***0.9%***	***(0.7%)***		***15.4%***

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

Investments in euro increased

55. The average interest rate for holdings in dollar more than doubled from 0.26 per cent in 2015 to 0.68 per cent in 2016. The average interest rate for holdings in euros more than halved from 0.13 per cent to 0.05 per cent. However, UNIDO increased the investments in euros by 53 million euros to 191 million euros. Holdings in US-dollars remained almost stable. The ratio between investments in dollars and euros was 52 per cent to 48 per cent as at 31 December 2016.

Penalty interest

56. Within the euro zone, UNIDO has been dealing with falling interest rates for some years, even with penalty interests in the past. Due to long-standing business relations with counterpart banks, UNIDO was able to manage term deposits in euros with zero or small interest rates. UNIDO could avoid penalty interest but had to extend the term of the investments up to twelve months, thus tying up funds. In order to avoid penalty interests, UNIDO established business relations with two new counterpart banks for investments in euros. The process of assessing and selecting these banks complied with FR. UNIDO prolonged the majority of the investments held in euros up to twelve months, whereas the average term of deposit for investments held in US-dollars remained at 90 days.

C.3.1.2. Assessed contributions receivable

Current assessed contributions decreased

57. In 2016, the level of current assessed contributions receivable decreased by 10 million euros to 93.2 million euros. Confirmed contributions of Member States that fall due after one year from reporting date in accordance with agreed payment plans are disclosed as non-current contributions receivable. Payment plans are negotiated between the Member States and Management in order to reduce arrears. As at year-end 2016, two payment plans exist whereas 78 Member States are in arrears without a payment plan. The trend from 2013 to 2016 is shown in Table 3.

	Year as at 31 December				
	2013	**2014 (restated)**	**2015**	**2015 (restated)**	**2016**
Current assessed contributions receivable million euros	92.5	98.4	103.2		93.2
percentage change	*(0.0%)*	*6.4%*	*4.8%*		*(9.7%)*
Allowance for doubtful accounts million euros	86.8	89.8	91.4		81.9
percentage change	*(0.5%)*	*3.5%*	*1.9%*		*(10.5%)*
Non-current assessed contributions receivable million euros	1.1	0.6	0.1		0.1
percentage change	*(82.9%)*	*(45.0%)*	*(84.1%)*		*0%*
Allowance for doubtful accounts million euros	0.5	0.2	0.1		0.03
percentage change	*(62.0%)*	*(76.7%)*	*(78.3%)*		*(38.0%)*

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

Allowance for doubtful contributions had to be calculated as at 31 December 2016

58. In accordance with IPSAS, an allowance for doubtful contributions had to be calculated as at 31 December 2016. The allowance amount for doubtful accounts decreased by 9.6 million euros to a total of 81.9 million euros. More than 71 million euros of the allowance refer to doubtful assessed contributions of two former Member States. The total outstanding amounts (without former Member States) decreased to a total of 22.1 million euros. The trend at the end of a biennium between 2010 and 2016 is shown in Table 4.

	First year of a biennium as at 31 December			
	2010	**2012**	**2014**	**2016**
Assessed contributions payable million euros	78.3	76.6	72.0	68.2
Assessed contributions collected million euros	73.2	67.6	64.5	60.0
Assessed contributions outstanding million euros	5.3	9.1	7.5	8.2
Outstanding amounts in total million euros	41.9	27.9	27.9	22.1

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

59. Pursuant to FR 5.1, the appropriations approved by Member States for regular budget expenditures shall be financed by mandatory contributions from the Member States. If assessed contributions are paid later than the biennium to which they relate, they cannot be used for the originally planned programme of work but will become part of the unutilized balances of appropriations and ultimately surrendered to the Member States in accordance with financial regulation 4.2.

Recommendation(s)

60. I would like to recall that delayed payments of assessed contributions put a substantial additional strain on UNIDO regular budget. The willingness of Member States to pay assessed contributions in due time is crucial to overcome this weakness. Furthermore, efforts to negotiate payment plans with Member States being in arrears should be strengthened. Member States might also want to consider steps to limit the negative impacts by enabling UNIDO to use assessed contributions to their full extent for programmed core activities within the regular budget even if

they are paid after the relevant biennium. For this purpose, the financial regulations would have to be changed accordingly.

Management's response

61. In accordance with the above recommendation, a proposed amendment to Financial Regulation 4.2 has been submitted to member states in document PBC.33/4.

Follow-up

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

C.3.1.3. Voluntary contributions receivable

Voluntary contributions increased

63. In 2016, voluntary contributions receivable increased by 4.8 million euros to a total of 216.8 million euros. In 2014, UNIDO differed between current and non-current voluntary contributions receivable for the first time. No allowance has been made to voluntary contributions. The trend from 2013 to 2016 is shown in Table 5.

	Year as at 31 December				
	2013	2014 (restated)	2015	2015 (restated)	2016
Voluntary contributions receivable (current) million euros		70.5	139.2		146.2
percentage change				*97.4%*	*5%*
Voluntary contributions receivable (non-current) million euros		39.9	72.8		70.6
percentage change				*82.5%*	*(3.1%)*
Voluntary contributions receivable million euros	**69.3**	**110.4**	**212.0**		**216.8**
percentage change	***(42.2%)***	***59.3%***		***92.0%***	***2.3%***

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

Voluntary contributions cause imbalance

64. Voluntary contributions continue to rise in 2016, although at a slower pace than in recent years. While they help to improve the overall financial position of UNIDO, they cause a significant imbalance between the regular budget, funded by assessed contributions, and the voluntarily financed operational budget. Earmarked voluntary contributions are subject to specific conditions or require co-funding of projects. As a result, UNIDO faces difficulties to cover the necessary programme support expenses from the decreasing regular budget. This situation is exacerbated by the withdrawal of Member States and the late or non-payment of assessed contributions.

Consequences for UNIDO activities

65. The decrease of fully disposable and predictable financial funding has several negative consequences for UNIDO. In the first instance, it reduces the scope to offer permanent contracts to its staff. Instead, UNIDO has to rely increasingly on temporary employment under ISA conditions (see # 83). This increases the transaction costs necessary to maintain an adequate workforce. It also may conflict with the necessity to have a stable basis of professional experience at hand. The lack of sufficient funds is also a serious impediment for structural developments in the organization that could improve efficiency and reduce risks (see # 40, 93, 182) for UNIDO activities. Finally, it weakens the ability of UNIDO to deal with future financial risks, e.g. those arising from post-employment benefits (see # 48).

Different solutions

66. In this situation, UNIDO itself has only a limited range of possible responses. One is to reduce spending financed from the regular budget. In my opinion it is crucial that this is not done at the expense of the ability of UNIDO to fulfil its tasks, but by increasing the efficiency of operations. Evaluation and monitoring should be further developed to reach this goal also with regard to core activities. Another

course of action is to open up additional resources for the regular budget. This is why a Special Account of Voluntary Contributions for Core Activities (SAVCCA) was established in 2015. I found, however, that Member States had made no material payments to this fund so far. It seems necessary to communicate more clearly that substantial voluntary contributions to this fund could help to avoid serious risks for the effective work of UNIDO. Moreover, collecting arrear payments in this fund would be a transparent way to strengthen the financial basis for the regular budget. This also applies to the Major Capital Investment Fund (hereinafter "MCIF") that was established in 2015 as a funding mechanism to secure funding for major capital investments or replacements. MCIF is funded by allocations in the regular budget but is also open to receiving voluntary contributions.

Recommendation(s)

67. I encourage UNIDO and Member States to pursue all possibilities to promote efficiency and a sound financial basis for core activities. Member States may wish to consider reducing financial imbalances by making voluntary funding available for SAVCCA and MCIF.

Management's response

68. Management welcomes the recommendation and will make efforts to advocate the concept of the special accounts SAVCCA and MCIF to potential contributors.

Follow-up

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

C.3.2. Liabilities

C.3.2.1. Accounts payable

Financial Regulation 4.2.

70. 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 therefrom 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

71. The surplus amount available for distribution is the unspent balance resulting from the collections from Member States. The collected assessed contributions received relative to earlier biennia plus the amounts received from new Member States are shown under "accounts payable" (pending receipt of the instructions on the use of funds by concerned Member States). The trend from 2013 to 2016 is shown in Table 6.

	Year as at 31 December				
	2013	2014 (restated)	2015	2015 (restated)	2016
Unencumbered balance brought forward on 1 January million euros	10.4	16.6	4.8		11.7
Plus: Collection of contributions from previous period million euros	12.0	0.7	10.0		0.0
Minus: Applied to assessment, retained for Technical Cooperation (hereinafter "TC") activities or refunded to Member States million euros	(5.8)	(12.4)	(3.1)		(6.2)
Balance payable to Member States million euros	16.6	4.8	11.7		5.5

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

C.3.2.2. Employee benefits liabilities

Rising trend intact

72. Employee benefits liabilities consist of current and non-current liabilities. The trend from 2013 to 2016 is shown in Table 7.

	Year as at 31 December				
	2013	**2014 (restated)**	**2015**	**2015 (restated)**	**2016**
Short-term benefits					
million euros	1.5	2.0	3.0		2.9
percentage change	*(35.2%)*	*30.4%*	*53.6%*		*(4%)*
Post-employment benefits					
million euros	175.1	223.5	211.5		251.9
percentage change	*(1.0%)*	*27.7%*	*(5.3%)*		*19.1%*
Other long-term benefits					
million euros	5.4	6.2	6.0		6.3
percentage change	*(11.5%)*	*14.4%*	*(2.6%)*		*4.6%*
Total liabilities					
million euros	**182.0**	**231.6**	**220.5**		**261.1**
percentage change	***(1.7%)***	***27.3%***	***(4.8%)***		***18.4%***

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

Short-term employee benefits are negligible

73. 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 3 million euros are negligible.

Non-current employment benefits

74. 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 affect such an estimate. The assumptions are disclosed by Management in accordance with IPSAS.

Deficit of regular budget

75. Due to these non-current liabilities for employee benefits, the General Fund balance of the regular budget of UNIDO is negative. The estimated future expenditures have already been allocated to the General Fund whereas funds to cover them have not been raised yet because these liabilities will be paid as they arise. The deficit amounts to 165.8 million euros. Although it is not a payment that needs to be made immediately, future cash payments will have to meet these liabilities.

C.4. Statement of Financial Performance

Total revenues decreased

76. In 2016, total revenues decreased by 4.5 per cent to a total of 291.3 million euros. This is mainly due to lower voluntary contributions totalling almost 218 million euros. The assessed contributions decreased again by 4.2 per cent in 2016 compared to 1 per cent in 2015. The trend from 2013 to 2016 is shown in Table 8.

	Year ended 31 December				
	2013	**2014 (restated)**	**2015**	**2015 (restated)**	**2016**
Total revenue					
million euros	**191.6**	**221.6**	**305.1**	**304.9**	**291.3**
percentage change	***(13.3%)***	***15.7%***	***37.7%***	***37.6%***	***(4.5%)***
thereunder:					
- Assessed Contributions					
million euros	76.5	71.9	71.2		68.2
percentage change	*(0.0%)*	*(6.0%)*	*(1.0%)*		*(4.2%)*
- Voluntary contributions					
million euros	114.0	149.6	228.8		217.9
percentage change	*(20.3%)*	*31.3%*	*52.9%*		*(4.8%)*
- Investment revenue					
million euros	0.5	0.1	0.0		0.6
percentage change	*(37.1%)*	*(81.6%)*	*(80.0%)*		*3333%*
Total expenditure					
million euros	**230.1**	**191.4**	**223.1**	**223.1**	**225.2**
percentage change	***0.1%***	***(16.9%)***	***16.6%***	***16.6%***	***0.9%***
This comprises:					
- Salaries/employee benefits					
million euros	107.9	106.9	126.3		121.0
percentage change	*(6.2%)*	*(0.9%)*	*18.2%*		*(4.2%)*
- Operational costs					
million euros	34.0	31.8	26.7		25.6
percentage change	*46.0%*	*(6.3%)*	*(16.2%)*		*(4.1%)*
- Contractual Services					
million euros	70.1	44.6	55.8		62.9
percentage change	*26.0%*	*(36.4%)*	*25.1%*		*12.7%*
- TC equipment expensed					
million euros	15.7	4.5	6.2		5.8
percentage change	*(26.8%)*	*(71.1%)*	*36.4%*		*(6.5%)*
Currency Translation Differences					
million euros	9.7	(26.0)	(33.3)		(4.7)
change in million euros	1.9	(35.6)	(7.3)		28.6
Surplus/(deficit)					
million euros	**(48.3)**	**56.2**	**115.2**	**115.0**	**70.8**
change in million euros	**(31.4)**	**104.5**	**59.0**	**58.8**	**(44.2)**

Table 8: Financial performance (source: Statement 2)

77. In the same period, expenditures increased marginally by 2 million euros. Expenditures for salaries and employee benefits decreased by 5.3 million euros. Expenditures for contractual services increased in the same period by approximately 7 million euros. TC equipment expenditures and operational costs remained relatively stable.

Currency translation gain decreased

78. UNIDO performance declined by nearly 45 million euros to a surplus of 70.8 million euros. This is mainly attributable to a decreased currency translation gain. Currency translation gains or losses represent an accounting valuation only without resulting in cash in- or outflow. They have no impact on the financial performance of UNIDO.

C.5. Statement of Comparison of Budget and Actual Amounts

Preparation of budget and accounts on different bases

79. Since the adoption of IPSAS, UNIDO budgets und accounts have not been prepared on the same basis. Statements 1 to 4 are fully prepared on an accrual basis. Budget items have been classified based on the nature of expenses in accordance with budgets approved for the biennium 2016-2017.

Statement 5 serving as a link

80. 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 2013-2016 is shown in Table 9.

	Year ended 31 December				
	2013	**2014 (restated)**	**2015**	**2015 (restated)**	**2016**
Original budget million euros	94.8	88.4	91.7		85.3
Final budget million euros	105.7	88.4	102.0		85.3
Actuals on comparable basis million euros	89.5	78.0	87.6		76.7
Balance of appropriations million euros	16.3	10.3	14.5		8.6
percentage of final budget	15.4%	11.7%	14.2%		10.1%

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

Percentage of unspent budget funds decreased

81. In 2016, the percentage of unspent budget decreased slightly to 10.1 per cent compared to 14.2 per cent in 2015. The lower percentage of unspent budget at the end of the first year of the biennium 2016-2017 corresponds to a pattern that can be observed in each biennium.

C.6. Fund Balance and Commitments

Commitments 45 per cent of the fund balance

82. UNIDO commitments are not recognized as expenses in IPSAS-compliant financial statements. They amounted to 180.8 million euros at year-end. In 2016, commitments accounted for 45 per cent of the UNIDO fund balance, tying up financial resources accordingly. This will result in a cash outflow in future years. The trend from 2013 to 2016 is shown in Table 10.

	Year ended 31 December				
	2013	**2014 (restated)**	**2015**	**2015 (restated)**	**2016**
Fund balance million euros	211.3	228.6	348.6	347.3	399.2
percentage change	*(17.0%)*	*8.1%*	*52.5%*	*53.5%*	*14.9%*
Commitments million euros	99.9	125.4	154.6	154.6	180.8
percentage change	*(24.7%)*	*25.5%*	*23.3%*	*23.3%*	*16.9%*
percentage of fund balance	47.3%	55.2%	44.3%	44.5%	45.3%

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

D. Detailed Findings for 2016

D.1. Individual Service Agreements

Importance of ISA

83. ISA constitute a substantial portion of UNIDO human capital. With regard to the four-year period 2013-2016, UNIDO recorded a total of 17,414 ISA contracts worth a total of 164,403,138 euros. The importance of ISA has been increasing steadily over the past years. UNIDO itself refers to "*current budget limitations due to recent withdrawal of member states, and related to its limitations in number of staff members*" to explain this development.

84. The table below shows the development of ISA contracts:

Year	2013	2014	2015	2016
No. of contracts awarded	4,319	4,431	4,535	4,614
Disbursement in EUR	36,921,875	36,395,984	45,159,147	45,926,132

Demand for consultants

85. There is a particular demand for consultants to implement UNIDO technical cooperation programmes and projects because their specific expertise is temporarily required for:

- Preparing strategic plans and manuals;
- Developing surveys and feasibility studies;
- Analysing internal management processes; and
- Implementing technical cooperation programmes and projects.

Core functions assigned to consultants

86. Moreover, core functions, such as strategic planning, financial services or IT services are assigned to a substantial number of consultants. With regard to the four-year period 2013-2016, the expenditures for consultants who were hired for these core functions amounted to a total of 8,673,602 euros. This includes the employment of consultants with the aim to replace regular staff for whose continued employment no predictable funds are available. The assignment of core functions of UNIDO to consultants raises various specific issues. These assignments are limited regularly to a maximum period of four years. The more regular activities of UNIDO depend on such temporary employment, the more the stable basis of professional and institutional knowledge within the organization is at risk. This may affect the continuity and efficiency of those activities.

Women underrepresented

87. I noted that women were underrepresented in ISA contracts. For instance, in 2014 women represented 31 per cent of ISA holders during the reported period. Compared to 2014, the engagement of female ISA holders increased by 4 per cent in 2016. This does not reflect the high priority given to gender balance by UNIDO in all areas of its work.

Framework for ISA

88. The "Framework for ISA" (UNIDO/AI/2016/5) sets forth criteria for the recruitment and administration of international, local or national consultants. It does not differentiate between ISA holders hired for technical cooperation programmes and key administrative tasks.

No other policy

89. Apart from this framework, UNIDO has no other written policy on the recruitment process of international, local or national consultants. Additionally, there exist one page guidelines for the recruitment of government officials.

D.1.1. Preconditions for the employment of ISA Holders

Preconditions not defined

90. The Framework for ISA does not define any preconditions for the employment of ISA holders. This makes the assessment difficult whether consultants are employed according to the organization's current needs. This especially applies to core functions of the organization.

Assessment of services needed	91. UNIDO should define more clearly under which circumstances the employment of external consultants is considered as an efficient and reliable source of workforce. Individual assignments should be based on a clear assessment of the needed quality and quantity of external service. In particular for the assignment of core activities, this should include the view on available in-house capacities and on the possible risks for the knowledge basis and the continuous work of UNIDO. The process should be documented in a transparent way. On this basis, UNIDO could also obtain an overview of the effects of an increasing share of external services.
Recommendation(s)	92. I recommend that UNIDO establish a proper assessment and monitoring system with regard to the use and expenditure of external services.
Management's response	93. The recommendation refers to ISA contracts charged to established positions and not to ISA funded from TC programmes and projects. The establishment of a monitoring system and the strengthening of internal controls for employment of budgetary funded consultants would require some improvements in the ERP system. Therefore, the implementation of this recommendation will require and depend on the availability of additional financial resources.
EA response	94. UNIDO recognized the need to strengthen the internal controls and to define preconditions for the employment of regular budget funded consultants. In order to accomplish this vital task and facilitate efficient and cost-effective processes, UNIDO should make efforts to provide adequate resources for the necessary improvements in the ERP system.
Follow-up	95. My team and I will follow up on the process.

D.1.2. Weakness in internal control

Tasks of Project Manager	96. The Framework for ISA stipulates that the Project Manager/Allotment Holder: • Initiate the recruitment of ISA holders (Chapter 7.1); • Decide if the engagement of consultants is in line with the corresponding budgetary accounts (Chapter 7.6); • Check the availability of funds (Chapter 7.6, 26.7); • Be responsible for preparing the ToR (Chapter 7.7); • Define the recruiting requirements for the selection process of consultants (Chapter 7.7); • Set deliverables, reporting and qualifications requirements (Chapter 26.7); • Select candidates for specific assignments in a non-competitive selection process (Chapter 26.7).
Roles of Project Manager and HRM	97. Clarity in roles and responsibilities and an appropriate segregation of duties are important for ensuring accountability and effective internal control. The Framework for ISA assigns major responsibility to the respective Project Manager/Allotment Holder. The whole decision-making process is in his or her hands. This might affect the transparency of the decision-making process and cause conflicts of interest with regard to the selection of suitable candidates. The interviews with the Project Managers reflect that different approaches exist to select the appropriate candidate. In order to compare the qualification and the knowledge of candidates, some Project Managers use an individual self-made excel sheet or a ranking table with school grades; others manage completely without a systematic approach. In contrast to the leading role of the Project Managers/Allotment Holders in the recruitment and selection process of ISA holders, the role of the Department of Human Resources Management (hereinafter "HRM") is limited to a more formal role based on the workflow.

Budget allocations for consultancies

98. The Project Managers/Allotment Holders are also responsible for the payment of consultants. Allocation for consultancy work is guided by the budget lines of the relevant programmes. However, if the consultancy work is complex and requires additional resources, the *"Budgetary Provisions"* in chapter 7.6 do not provide any regulation for these cases. This could bear the risk that individual payment could deviate from mid-term or long-term funding of projects.

Lack of accountability

99. Given the prominent role of the Project Manager/Allotment holder, I still see a lack of accountability with regard to the employment of consultants. This still applies considering the fact that ISA have to be signed and approved by the relevant Unit Chief based on the approval workflow process.

Recommendation(s)

100. UNIDO should ensure that roles and responsibilities for the assignment of consultants are clearly established in the Framework for ISA and clearly separated between the Project Manager and HRM. In my opinion, the decision of the Project Managers/Allotment Holders in the selection process should be reviewed and approved by a unit which has central competencies in ensuring the transparency and efficiency of HRM.

Furthermore, UNIDO should provide standardized ranking and assessing sheets for all Project Managers. This would improve transparency and comparability in the selection process.

Management's response

101. Management supports the recommendation to provide standardized ranking and assessment sheets for all Project Managers. The ISA Framework will be revised. However, it should be noted that an increase in the responsibilities of the HRM team in the selection process will inevitably lead to the need of additional resources to perform the newly assigned tasks, which in turn will depend on the availability of such additional resources.

Follow-up

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

D.1.3. Selection process

Various selection processes

103. The Framework for ISA (Chapter 8) distinguishes between

- Competitive selection;
- Non-competitive selection;
- Limited competitive selection.

For contracts with a total value of more than 200,000 euros, a competitive selection process through a vacancy announcement is required.

For contracts with a total value of up to and including 200,000 euros, the candidate will be selected from the Resource Pool in a non-competitive selection process. The Resource Pool comprises all active and previously employed consultants who have a positive performance record.

For contracts with a total value of up to and including 200,000 euros and in case the suitable candidate is not available in the Resource Pool, three candidates have to be identified from the Talent Pool. This means a limited-competition selection is to be implemented.

Resource Pool

104. The Framework for ISA includes some competition requirements applicable to the recruitment process of consultants. These requirements do not cover consultants having a positive performance record and being registered in the Resource Pool. The interviews with the Project Managers/Allotment Holders reflected that the majority of candidates was selected from the Resource Pool. This non-competitive selection process might help to eliminate the bureaucratic process of approving posts; it does not allow, however, to make full use of direct competition to find the best candidate for a specific task. It also presents a risk of non-transparent and subjective decisions.

Recommendation(s)	105. UNIDO should ensure objectivity and sufficient competition in the selection and recruitment of consultants. This applies particularly to consultants selected from the Resource Pool which represent the majority of the selected candidates. I recommend that UNIDO review the existing competition thresholds and lower them, if necessary.
Management's response	106. Management supports the recommendation in principle and the selection process will be reviewed to address the mentioned risks while at the same time securing efficient delivery of UNIDO programme objectives and the need to hire consultants at a timely manner. Improvements in the ERP system, which would support standardized monitoring, are required and hence the implementation of the recommendation will depend on the availability of resources.
EA response	107. I appreciate Management's decision to review the selection process. Necessary funds should be made available in due time for the required improvements in the ERP system.
Follow-up	108. My team and I will follow up on the process.

D.1.4. Transparency of the selection process

Documentation of selection process	109. Regarding the selection process of the candidates, the UNIDO Framework for ISA does not require documenting the assessment of suitable candidates for an assignment. Chapter 8.2 of the Framework for ISA stipulates that Project Managers/Allotment Holders shall be able to justify their selection decisions if and when requested by internal or external auditors. With regard to the selection process, we found some weaknesses in the documentation of the selection decisions. The review showed that the reasons for the selection or rejection of candidates are poorly recorded and therefore the basis for the justification of decisions is weak. Some of the Project Managers/Allotment Holders keep the e-mail communication in their own folder in order to comply with the Framework for ISA (Chapter 8.2). Others do not record the decision-making process at all.
Written records necessary	110. In my opinion, written records of the reasons for selecting or rejecting each candidate should be kept at the short-listing stage and the final selection stage. This would enable Project Managers/Allotment Holders to present a comprehensive and plausible justification of their selection decision if needed.
Recommendation(s)	111. UNIDO should provide clear guidelines and increase staff awareness to prepare proper documentation of the selection process at the short-listing stage and the final selection stage.
Management's response	112. Management accepts the recommendation.
Follow-up	113. My team and I will follow up on the process.

D.1.5. Performance Evaluation

Terms of Reference	114. The Framework for ISA stipulates under Chapter 22 that the work and the performance of the ISA holder shall be evaluated and monitored on a regular basis to ensure that the contractual obligations have been fully met. The evaluation should include a review of the quality of the services provided. Pursuant to the Framework for ISA, the Project Manager/Allotment Holder is responsible for preparing the ToR. The ToR are an integral part of the ISA contract and should include clearly defined measurable deliverables (Chapter 26.7).
Performance evaluation	115. The release of the final payment and the decision if the expert is to be reemployed and should remain in the Resource Pool depend on a satisfactory performance evaluation. In order to evaluate and to assess the performance of consultants UNIDO uses a standardized template. The template offers the following criteria for the evaluation: • Recommendation for future reemployment; • Job knowledge and competence;

- Results achieved;
- Effectiveness;
- In the field.

The template in the "Job knowledge and competence" section offers five classifications:

- Excellent;
- Very good;
- Good;
- Poor;
- Unsatisfactory.

A definition of the meaning and content of each classification is lacking. Regarding the other evaluation criteria, the template offers an area wherein the project manager has to submit the relevant comments. ISA holders with an unsatisfactory evaluation will not be retained in the Resource Pool (Framework for ISA, chapter 22.3).

Differing definitions

116. My team and I reviewed the performance evaluations of different project managers in relation to selected ISA holders. The rankings for "job knowledge and competence" were not comprehensible. Consultants, for example, who achieved the planned results, either received the ranking "excellent", "very good" or "good". Obviously, project managers have differing definitions of the requirements for a specific classification. Even the comments on the other evaluation criteria were not consistent as they assessed the services using descriptions as "well done", "achieved" or "as per job description".

No sufficient basis for evaluation

117. Assessing the consultant's performance is important for remuneration purposes and for tracking work performance for future assignments. In this regard, the design, application and results of the performance evaluation do not provide a sufficient basis. The requirements for the respective classification within the criteria "job knowledge and competence" are not defined and therefore the rankings are not based on comparable benchmarks.

Recommendation(s)

118. UNIDO should establish a performance evaluation template which requires the Project Managers/Allotment Holders to evaluate the consultant's performance. Where appropriate, performance evaluation should be based on clearly defined measurable deliverables. It should provide more qualified information on the delivered service referring to the main duties mentioned in the relevant ToR. The performance evaluation should include a clear description of tasks to be performed, the expected deliverables in compliance with the assignment and specific indicators for achievement.

Management's response

119. Management supports the recommendation and will review the appraisal methodology. The implementation would require adjustments also in the ERP system, which depends on resource availability.

EA response

120. I welcome the decision of UNIDO to review the appraisal methodology. UNIDO should provide adequate resources to implement necessary adjustments in the ERP system.

Follow-up

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

D.2. Buildings Management Services

BMS responsibility

122. In accordance with the Headquarters' Agreement, UNIDO, through Buildings Management Services (hereinafter "BMS"), has the overall responsibility for maintaining, repairing and upkeeping the Vienna International Centre (hereinafter "VIC") complex vis-à-vis the Host Government and the other Vienna Based Organizations (hereinafter "VBO(s)"). I take note of BMS' efforts and actions of the past two years which aim at strengthening BMS mission performance, such as the reinforcement of the Major Repair and Replacement Fund, the full release of the Work Order Management System or the introduction of the time recording system.

D.2.1. Staff Capacity Plan

Last year's audit continued

123. In my annual reports of 2014 and 2015, I recommended that the required staff for BMS be recruited as soon as possible, and the recruitment process be based on a staff capacity plan that matches current vacancies with operational needs and risks. I emphasized that in implementing the staff capacity plan due consideration should be given to organizational needs based on a recommended review of BMS structure, processes and procedures.

Recruiting started

124. Following my 2015 report, UNIDO exempted BMS from the general external recruitment freeze and started recruiting BMS staff in March 2016. By the end of November 2016, UNIDO had completed 15 out of 42 planned recruiting processes.

Report provided

125. In November 2015, UNIDO hired an external human resources specialist (hereinafter "HR specialist") in order to support BMS in implementing my recommendation to review the organizational structure and processes of BMS, and to draft a staff capacity plan. In November 2016, after the request of my team to receive a copy of the staff capacity plan including all pertaining documents, BMS provided a report titled *'Capacity Plan and New Organization Structure of BMS'* (hereinafter "CPNOS report").

Content of report

126. The CPNOS report describes the staffing level in 2015 (34 vacant posts), the shortcomings attributed to an inappropriate staffing in terms of quantity and quality. The report also refers to several anomalies detected in the organizational structure of BMS and recalls the objectives of the review of the initial organizational and staffing structure of BMS.

Methodology insufficient

127. The methodology of the CPNOS report is described as follows: "*The review of the structure of BMS, assessment of the post/staffing requirements for each area, the redeployment of resources, development of job descriptions and staff profiles were done in close collaboration with BMS management, Supervisors, and Team Leaders. Additionally, discussions with BMS customers took place in order to understand their needs, as well as perception of BMS.*" The report does not provide a reliable basis for systematic and quantitative analyses that would permit to derive the staffing needs from BMS tasks and the corresponding time requirements. Initial situation, objectives and necessary measures are rarely described in clear-cut quantitative and qualitative dimensions. On the contrary, the report more often provides generalized, little specified assessments of the assumedly appropriate staffing levels.

Description of BMS structure

128. The CPNOS report describes the current overall structure of BMS and explains the decision of BMS management to maintain this overall structure. It further explains the configuration of groups and the number of teams. The remainder of the report reflects the structure of the organizational units of BMS. For each organizational unit and/or sub-unit the report provides a description of their general responsibilities, diverse future challenges, selected potential risks, initial structure and staffing, unit-specific objectives, steps taken to achieve these objectives, and the final structure and staffing of the unit.

Measures taken

129. All measures taken are marked as specific contributions towards achieving the related unit-specific objectives. Some of these measures clearly address the organizational anomalies set out at the beginning of the CPNOS report, such as the reduction of Chief BMS span of control, the strengthening of the administrative and project management functions, or the relocation of the Cleaning and Waste Management, the BMS Help Desk and Central Desk.

No underlying documents

130. In order to fully understand the statements and conclusions presented in the CPNOS report, my team requested the documentation of the underlying reviews and assessments (including figures and calculations), of the *collaboration with BMS management* and the *discussions with VBOs*. BMS did not provide additional underlying documents or figures, e.g. minutes about discussions with BMS customers or systematic calculations on how the HR specialist derived these conclusions.

No key basis for decisions

131. The CPNOS report's descriptive formula, the lack of specified target figures and the related need for action to achieve these, and the prevailing explanations for actions and decisions taken suggest that it was not the key basis for the relevant decisions at UNIDO for the authorization of the recruitment processes which started in March 2016.

Challenging task

132. I acknowledge that analysing and assessing the present and future workload and staffing of BMS, identifying resource gaps and relevant risks while performing its regular work is a challenging task for BMS.

Staff capacity plan needed

133. Nonetheless, a well-founded staff capacity plan, continuously further developed and adapted to a changing environment, will help UNIDO to ensure the best fit between human resources and workload while avoiding staffing shortages or surpluses within BMS.

Lack of sound basis

134. I welcome the decision to strengthen the administrative and project management functions. However, due to the lacking documentation of the underlying information, my team and I are not in the position to verify the conclusions presented in the CPNOS report. In its current form, the report does not constitute a sufficiently sound basis for target-driven and efficiency-oriented management decisions concerning the relevant capacity and resources because relevant information on the following is lacking:

- Approach, including relevant (well-defined) criteria, for reviewing and assessing BMS in terms of organization, staffing and mission performance;
- Risk assessment based on relevant and objective criteria;
- Needs assessment based on BMS mission objectives to determine target structure and staffing of BMS;
- Gap analysis based on a target-performance comparison to identify the relevant number and qualifications of staff needed;
- Figures and calculations which would justify the decisions and actions taken.

Recommendation(s)

135. Therefore, I recommend that UNIDO:

a. Base future BMS-related capacity and recruitment decisions on well-documented systematic assessments and relevant calculations which reflect operational needs, risks and performance of BMS. UNIDO should be fully aware of the importance of comprehensive and transparent analyses of capacity requirements as a basis for a needs-oriented and efficient staff allocation; and
b. Document the corresponding decision-making.

Management's response

136. The recommendations are noted.

D.2.2. BMS-related governance and ISA compliance

Terms of Reference

137. Para. 26.7 of the Framework for ISA stipulates that ToR should include "clearly defined measurable deliverables". In accordance with para. 7.8 of the Framework for ISA, ToR "shall be comprehensive and explicit as they are the principal guideline in identifying the scope and complexity of the functions", and they "serve as the basis for determining fees, evaluating performance and ultimately, certifying that services have been performed satisfactorily". Therefore, ToR shall clearly reflect the description of functions, which include: "(i) the main duties; (ii) the main outputs/ key performance indicators; (iii) the expected duration expressed in working days or calendar months."

Performance evaluation

138. In order to attest the timely and satisfactory completion of the assignment and to release the final payment, a performance evaluation is required for ISA holders. Para 22.5 of the Framework for ISA stipulates that the performance evaluation of ISA holders shall be initiated, completed and approved by the responsible officials within one month after completion of assignment. The relevant Performance Evaluation Forms are digitally approved in SAP.

ISA contracts

139. In November 2015, UNIDO hired a HR specialist under ISA to support BMS in implementing my recommendation to review organizational structures and processes of BMS, and to draft a staff capacity plan. By the end of 2016, the term of the specialist's contract had been renewed twice, the latest ending in May 2017. The relevant ToR stipulate that the HR specialist had to carry out specific responsibilities and deliver certain outputs.

Deliverables lacking

140. By the end of the first contract, one deliverable was not delivered as requested and only one fully completed. The other deliverables were still awaiting completion and therefore carried over to ToR of the second contract. Nonetheless, based on the positive evaluation by the responsible officials who certified the ISA holder's satisfactory and timely delivery, UNIDO released the final payment and awarded a new contract to the specialist.

Deliverables carried over

141. The responsible officials approved the second Performance Evaluation Form nearly two months (16 September 2016) before the end of the second contract (7 November 2016) while some of the corresponding deliverables and duties were carried over to the third ToR.

Comments on outputs and results

142. Concerning the achieved results, the evaluation forms request comments on all outputs and measurable results achieved in relation to those planned or expected as per ToR. Except for the statement that the specialist had achieved the results as planned, no detailed reasoning or evaluation was provided. The responsible officials qualified the specialist's efforts as being a substantive contribution and an excellent job, and recommended him for future re-employment.

Compliance with ISA requirements lacking

143. In this particular case, ISA-related governance and control mechanisms of UNIDO have failed to ensure compliance with the current ISA requirements.

No clear criteria for performance evaluation

144. As stipulated in the Framework, the present ToR should include clearly defined measurable deliverables that would allow for evaluating the specialist's performance. However, ToR do not provide any further specification of the deliverables than given in the description of the main duties. For some deliverables even the description of the main duties does not allow to derive clear criteria which would allow to appropriately evaluate the performance of the HR specialist. Since the Performance Evaluation Forms do not provide any further comments on the results achieved, my team and I are not in the position to verify what criteria have been applied to evaluate the ISA holder's performance.

Timely dimension unclear

145. Furthermore, the timetable governing the services to be delivered remains unclear. The scheduled end of the respective contract periods did not coincide with the completion date. This led to transferring unfinished tasks into the next ToR without further justification.

Approval of performance evaluation premature

146. Taking into consideration that some deliverables were carried over to ToR of the third contract, and that another deliverable was not delivered as requested, the approval of the Performance Evaluation Form certifying the completion of assignment was not only premature but also violated para. 22.5 of the Framework for ISA.

Consistent and relevant ToR essential

147. Against the background of the crucial role of ToR, setting up consistent and relevant ToR is an essential prerequisite for the recruitment and employment process of ISA holders. There is no further guidance defining relevant standards for setting up and, with a view to the four eyes principle, assessing ToR. Such a document would help the Project Manager/Allotment Holder to better define the outputs, provide criteria to assess their quality and usefulness, and enable the responsible officials to later evaluate the ISA holder's performance.

Recommendation(s)

148. Therefore, I recommend that UNIDO:

a. Pay attention to the proper use of ISA contracts within BMS:
   i. Pay particular attention to prepare applicable ToRs that enable the responsible officials to evaluate the ISA holder's performance in a timely manner after completion of the assignment;
   ii. Make a meaningful and transparent evaluation a precondition for the decision to release the final payment; and

b. Establish effective control mechanisms including the corresponding IT processes which improve compliance with the ISA framework, especially to avoid premature approvals and subsequent release of final payments before the completion of the ISA assignment.

Management's response

149. The recommendations are noted.

Follow-up

150. My team and I will continue to monitor the development of efficient and adequate structures in BMS.

D.3. Asset Management

D.3.1. Capturing of assets

Criteria for capitalizing assets

151. Chapter 3.2.3 of UNIDO Property Management Manual (hereinafter "PMM") sets criteria for capitalizing assets. UNIDO determined a minimum threshold for capitalization and disclosure of tangible items of 600 euros and 1,700 euros for intangible assets. Self-created intangible assets are taken into account if they exceed a threshold of 25,000 euros. Procured items below these above-mentioned thresholds – low value assets (hereinafter "LVA") – are expensed immediately at month-end after the purchase. Every purchased item is allocated by the SAP Asset Management System (hereinafter "AMS") to a specific asset class. The allocation is automatically generated by the system when the shopping cart is created. The acquisition costs are no relevant criteria for this allocation. At the end of each month, AMS reconciles all procured items and removes every item that is below the relevant threshold from the original asset class to the asset class LVA01 (tangible items) or LVA02 (intangible items). Therefore, AMS automatically captures not only all items above 600 euros but also items with a value below 600 euros if they are purchased through the SAP Shopping Cart procedure. The system allocates a sequential asset number to each posted asset. Each item can be tracked by this specific identification feature until it is retired and written off. Items which are not automatically captured in the system have to be recorded separately for capitalization in excel sheets (see # 157). Most field offices apply this procedure.

Low value attractive items

152. PMM stipulates that specific low-value assets – low value attractive items (hereinafter "LVAI"), e. g. mobile phones or computers – should be captured in AMS for monitoring purposes. In most cases, these LVAI are assigned to a specific employee. My team observed a weakness in recording attractive assets in the past. Therefore, I recommended that LVAI be tracked by the system. UNIDO established a monitoring procedure in AMS in accordance with our recommendation. LVAI are now highlighted as an attractive item. The asset is not deactivated in AMS until retirement or write-off. Hence, capitalized items and LVAI are treated in the same way. I appreciate the prompt and appropriate response given to my recommendation.

Disclosure of PPE

153. FR 109.1.5 stipulates how to manage Property, Plant and Equipment (hereinafter "PPE") with regard to authority, responsibility and records. The PMM and UNIDO Manual for Asset Creation in Supplier Relationship Management (hereinafter "SRM") determine the relevant thresholds for capitalization and disclosure. In accordance with these rules and regulations, UNIDO discloses PPE in the relevant statement of financial position and the related notes 7 and 8.

Expenses for equipment below the capitalization thresholds (LVA and LVAI) are disclosed together with expenses for technical cooperation equipment handed over to the beneficiaries in a pooled figure (note 17.4). Therefore, UNIDO financial statements do not provide clear information about expenses for LVA and LVAI.

Recommendation(s)

154. I recommend that all items that do not exceed the relevant threshold in AMS be recorded regardless of whether the item is located at Headquarters, a local office or used for technical cooperation. In the future, all LVA and LVAI should exclusively be recorded in the system.

Furthermore, I recommend that appropriate guidelines be established and the information be shared with the field offices and concerned project teams. Expenses for all items that do not exceed the relevant thresholds should be disclosed. Since most of these items are recorded and captured in AMS, I believe that relevant figures could be extracted with an acceptable work input. In my opinion, disclosure will increase transparency and provide a comprehensive overview of all PPE, LVA and LVAI that are still in use.

Management's response

155. Management agreed with our recommendation and proposed specific measures to address these issues.

Follow-up

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

D.3.2. Physical inventory verification

Inventory exercise

157. UNIDO conducts an annual inventory exercise in accordance with FR 109.1.9. PMM (Chapter 9.6) also stipulates physical inventory verification. Inventory exercise at the Headquarters comprises PPE and LVAI through scanning the labelling of every item once a year. LVA such as furniture is counted once a year only. Once all items have been posted into AMS, the result of the inventory exercise is reconciled automatically with AMS. Discrepancies have to be settled individually. Counted items are reconciled by comparing the previous inventory list. Field offices procure assets that exceed the threshold through the regular procedure of a shopping cart. Representatives in the field offices are authorized to purchase any item that does not exceed the applicable threshold on their own responsibility. Field offices either post these items in AMS or record them in an Excel sheet. In order to conduct the inventory exercise, the General Support Services Unit (hereinafter "GES") provides the representatives in the Field Offices with a list of the assets corresponding to the UNIDO Field Offices. This inventory report should be reviewed and reconciled by the Field Offices.

No overview of stored items

158. My team found potential for further improving the inventory exercise and reconciliation. Some of our previous findings and recommendations are still pending. Especially GES is still not aware of IT equipment that is moved between the offices or from the storage room to offices in order to replace damaged items. Even though these items are scanned by GES staff, the relevant data is not processed in the SAP system. Hence, GES has no complete and up-to-date overview of stored items for replacement and moved items. Moreover, GES is not completely aware of IT equipment stored for replacement or disposal. GES gains an overview of these issues only when the physical inventory is conducted once a year.

Importance of physical verification

159. In my opinion, physical verification of inventories is an important part of an organization's internal controls over assets. It aims at verifying the accuracy of inventory records and assigning the proper carrying value to the inventory. Therefore, I recommended in my last annual report that the inventory be conducted more carefully and discrepancies be settled.

New system

160. UNIDO agreed with the recommendation. To improve and strengthen asset management and the annual inventory exercise, UNIDO plans to implement a new system. The procedure of purchasing items and recording them in SAP is to remain unchanged. For inventory purposes, a Real Time Location System will be used, initially at Headquarters, by placing a beacon on every item. UNIDO expects the following benefits from the implementation of this system:

- Locating an item down to room-level;
- Tracking the movement of an item in real-time, especially personnel assigned LVAI;
- Obtaining a faster overview of items that are stored in warehouses and stocks and their movements;
- Conducting a permanent inventory;
- Reducing work input relating to the annual inventory because physical inventory can be limited to random samples and the settlement of discrepancies;
- Reacting faster in case of stolen or missing items.

Field Offices and TC projects	161. UNIDO also intends to expand this system to field offices and TC projects in the future after the Headquarters' pilot project has been successfully launched and tested.
Appropriate system	162. In my opinion, UNIDO intends to implement an appropriate and state-of-the-art system to improve its asset management including the inventory exercise. A comprehensive inventory exercise might become redundant and could be reduced to the settlement of doubtful cases. Moreover, the weaknesses regarding the inventory of IT equipment can be solved. Furthermore, I am of the opinion that this new system helps to avoid everyday errors in posting, counting, measurement or missing files. I also believe that an enhanced system might reduce the amount of work required for incoming goods control. In my opinion, the intention of UNIDO to track all assets with a beacon in real time is future-oriented and provides a benefit to asset management.
Recommendation(s)	163. I recommend that UNIDO proceed with implementing this project based on a concept with all necessary information on the: • Estimate of the initial funding required; • Duration of project implementation; • Determination of milestones and measuring of progress; • Benefits for the entity; • Savings in the medium term compared to the current situation (monetary and human resources); • Feasibility of sharing the results of the project with other United Nations entities.
Management's response	164. Management has taken note of the audit recommendation.
Follow-up	165. My team and I will follow up on the process.

D.4. Physical IT Security

Physical security of UNIDO IT infrastructure	166. In previous years, I had reported on the unsatisfactory situation with regard to the fire protection of IT systems in the rooms which are shared by UNIDO and another organization. My team inspected the infrastructure again focussing on the most important parts for the network connectivity used by UNIDO and the other organizations. They noted that the situation had further deteriorated.

D.4.1. Main fibre distribution centre

Central hub racks	167. The central hub racks of the building's shared fibre-optic infrastructure are located in the basement of the C-building (C-126). This large room is used by several organizations in VIC which all need access to this central IT infrastructure. If these IT components are damaged, all network based communication in VIC will be interrupted.
Risks for fire safety	168. Whenever my team visited this room in the last three years, they found several risks for the fire safety of these network components as large amounts of combustible packing material and new and used goods were stored there. My team did not note any improvements by March 2017. They detected even more cardboard packings, several racks and cabinets, used IT components and some wooden furniture.
Responsibility unclear	169. Neither UNIDO nor the other organizations knew exactly who had access to this room and who was responsible for the stored material.
Recommendation accepted	170. Last year, UNIDO agreed with my recommendation to remove unnecessary material from room C-126. But UNIDO pointed out that since the indicated articles were not UNIDO property, UNIDO could not implement this recommendation. UNIDO could therefore only ask the sister organizations and/or UNSSS to improve the situation further.

Appropriate guidance needed	171. I am still of the opinion that UNIDO is responsible for improving infrastructure and especially fire protection. In my view, storing items in areas with special need of protection should be governed by appropriate guidance. Storing inflammable materials in the above-mentioned room and on the (rescue) access ways to this area must be strictly forbidden and compliance needs to be controlled regularly.

D.4.2. Network distribution centre of the D building

Network distribution centre	172. My team found an even more alarming situation in the area where the network distribution centre of building D (D-01) is located. This centre ensures the networking in the whole building.
High fire load potential	173. In the narrow corridor, my team found a bulk of different objects, especially furniture and other wooden objects with a high fire load potential.
Increased risk of damage	174. In response to my last report in 2016, UNIDO explained that this unsatisfying situation was only of a temporary nature. But this year, my team observed an increased amount of waste and objects in this area and consequently an increased danger for the communication of UNIDO and the other organizations in building D in case of fire or sabotage.

D.4.3. Floors in the basement

Inflammable objects	175. During the last years, when my team inspected the infrastructure of UNIDO, they noted that the floors and corridors in many basements were filled with large amounts of used furniture and other inflammable objects.
Hazard in case of fire	176. The fire load of these objects seems to be enormous and the escape routes critical and not safe. Additionally, the hazard for the central IT components which are largely distributed in the basements of VIC might be unnecessarily increased. In addition, quick and easy access for fire and rescue services through these corridors with high fire loads may not be possible and add to the time to reach the highly sensitive areas with the critical IT components.
Storing of unused items	177. Furthermore, I do not see the need for storing so many old and apparently unused items over such a long period of time.
Recommendation(s)	178. I recommend that UNIDO examine the matter of storing material, having regard to the fire safety conditions and establish regulations for the storing of goods in shared rooms. All inflammable and unnecessary material should be permanently removed from the floors to reduce the fire load. Unnecessary material should be identified, offered to other organizations in VIC, put up for sale or disposed of. Moreover, access to room D-01 should be strictly controlled and restricted to reduce the risk of unauthorized access and storing of material. As similar weaknesses may exist in all of the VIC buildings, I also see the need for developing a regulation between VBOs to ensure their work and IT connectivity.
Management's response	179. The items identified as belonging to UNIDO in D-01 will be removed with the assistance of BMS. Access to this area is strictly controlled. The old furniture belonging to UNIDO has been donated to the Red Cross Vienna and will be collected in April 2017. The new white cabinet components will be moved to C06 or C02 storage.
EA response	180. I appreciate the action taken by UNIDO. But I still see risks regarding fire protection as some of the inflammable and unnecessary objects remain in the area. Even though access to the area was strictly controlled, these items were deposited there. Therefore, I wish to reaffirm my recommendations.
Follow-up	181. My team and I will follow up on the process.

D.5. Governance in UNIDO

Audit Committee established	182. Following recommendations made by my predecessor, I recommended that an Audit Committee be established. The Industrial Development Board decided to establish an Audit Committee and approved the ToR at its 44th session in November 2016. The selection process for membership of the Audit Committee is underway. The results will be presented for decision at the 45th session of the Industrial Development Board in June 2017. I welcome the fact that this recommendation was fully implemented.
Resources IOE	183. The mandate of the Audit Committee is, inter alia, to review and advise on the independence, effectiveness and objectivity of the internal audit function, including adherence to the Internal Oversight Charter. In my last annual reports, I commented on the insufficient staffing level of the Office of Internal Oversight and Ethics (hereinafter "IOE") and recommended that UNIDO provide the necessary resources for IOE as stipulated in the Charter of IOE.
Progress made	184. At present, the staffing situation in IOE is slightly improving. Currently, IOE is staffed with a director (D1), an investigator (P3) and two oversight assistants (G5 and G6). Two auditors (P3) are being recruited and the positions are expected to be filled between April and June 2017. I welcome the progress made on this point. Nonetheless, I urge Management to continue supporting IOE thus enabling IOE to perform its duties as specified in the Charter of IOE.
Recommendation(s)	185. UNIDO should continue to ensure that IOE is adequately staffed and resourced.
Management's response	186. The recommendation has been noted and will be acted upon to the extent possible, given the current budgetary constraints.
Follow-up	187. My team and I will follow up on the process.

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

19 recommendations pending	188. The 2015 external audit report included 19 pending findings and recommendations. In November 2016, Management updated the list of follow-ups to inform about the progress of implementing these recommendations.
List evaluated	189. 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. Annex 1 of the report informs about the implementation status of all pending recommendations.
I appreciate Management's actions taken	190. I appreciate the actions taken by Management to implement recommendations. In the course of our future audit activities, my team will examine UNIDO progress on these fields at my own discretion.

F. Other Topics

Cases of fraud or presumptive fraud	191. IOE informed me about three cases of fraud or presumptive fraud. In one of these cases, Management terminated the individual service agreement. In the other two cases, disciplinary proceedings were taken. In two cases, no damage was caused. The established damage of the other case amounts up to 526,500 US-dollars.
	192. During our audit, my team did not find any other cases of fraud or presumptive fraud.
Losses / write-off	193. In 2016, PPE items totalling 65,000 euros were written off due to loss or theft (2015: 34,000 euros).
Ex-gratia payments	194. In 2015 and 2016, no ex-gratia payments were made.

G. Acknowledgement

Acknowledgement

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

[signature]

Kay Scheller
President of the Bundesrechnungshof
Germany
External Auditor

ANNEX

INDEPENDENT AUDITOR'S REPORT

CERTIFICATE OF THE EXTERNAL AUDITOR ON THE ACCOUNTS OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016

To the President of the Industrial Development Board

Opinion

I have audited the financial statements of the United Nations Industrial Development Organization (hereinafter "UNIDO") which comprise the statement of financial position (statement 1) as at 31 December 2016 and the statement of financial performance (statement 2), statement of changes in net assets (statement 3), cash flow statement (statement 4) and the statement of comparison of budget and actual amounts (statement 5) for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the UNIDO as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are described in the *Audit Procedure* section of my report. I am independent of the UNIDO in accordance with the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Information other than the Financial Statements and Auditor's Report Thereon

The Director General is responsible for the other information. The other information comprises the current report on the financial situation of UNIDO and the Annual Report of UNIDO 2016, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Director General, in accordance with UNIDO's Financial Regulations, is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the UNIDO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate UNIDO or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the UNIDO's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the UNIDO to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on other legal and regulatory requirements

Furthermore, in my opinion, the transactions of the UNIDO that have come to my notice or that I have tested as part of my audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the UNIDO and legislative authority.

In accordance with Article XI of UNIDO's Financial Regulations I have also issued a long-form report on my audit of the UNIDO

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

7 April 2017

Follow-Up of the Findings and Recommendations made in the Previous External Audit Reports

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
External Audit Report for 2014			
# 27	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. In addition, there is neither documentation nor a systematic process established for updating the worksheets. UNIDO should only use the ERP system for accounting and reporting. EA recommended adding the reporting functionality to the ERP system, especially in view of the financial statements.	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 work plan as a follow up to a recommendation from the European Union 7 pillar verification audit previously conducted by Ernst & Young.	EA will follow up on the process
		Status as of 30 November 2016	
		Partially completed: Automatic Financial Statements PPS/ITC/TIS has automated several financial statements using SAP/ERP and Business Intelligence. The balance sheet statement, the income statement and eight notes can now be generated. The statements are presented in such a way that it is easier for PPS/FIN to integrate them in stakeholder reports. Additionally, a separate report was developed in SAP to analyse the lines presented in the financial statements. Development continues for cash flow statement. Tools developed and initial set of statements I and II designed and tested. Continuing work on notes and other statements	UNIDO has already automated several financial statements and notes and will proceed doing this. EA will follow up on the process
# 94	UNIDO BMS, the responsible unit for ‘Buildings Management’, is the largest operation within UNIDO. 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. With regard to the deteriorating situation of buildings and installations, the risk of potential breakdowns is growing. To address these issues, EA recommended assessing potential risks in connection with the common service ‘Buildings Management’; defining clearly BMS mission taking into account the results of the above mentioned risk assessment; initiating the process of amending and updating the Memorandum of Understanding reflecting the above mentioned issues and today’s situation with regard to the other VBOs; revising the Memorandum of Understanding periodically and amending it, if necessary.	Management agreed with my findings and recommendation. The recommendation has been noted.	EA will follow up on the process
		Status as of 30 November 2016	
		The first draft of the TOR has been finalized and was shared with the representative of the Host Government (IAKW) for their review and feedback. This was requested by the IAKW during the latest PTWG meeting in August 2016. A meeting with IAKW will be held to discuss further details. Meanwhile, as a result of the recent risk assessment internal BMS workshop, a bidding exercise was conducted addressing the risks related to the Fire Safety of the entire VIC, including the buildings and the premises. The contract has already been awarded and the contractor has started the evaluation of the	By November 2016, there was no “Risk Assessment Report” in place. BMS was still in the process of preparing the corresponding bidding exercise. BMS intends to publish the call for tenders by March 2017 and expects to award the contract by May 2017. The present draft of the bidding documents fore-sees a period of 12 month to conduct the risk assessment. Due to the overlap of the reporting period, EA will follow up on

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
		respective areas.	the outcome of the bidding exercise and report on the relevant achievements of the risk assessment in the 2017 EA report.
# 114	The data centre is located in two rooms, separated by an operator room. To always guarantee a proper functioning two redundant IT systems for UNIDO programmes and data were set up, each in one room. The walls and doors between the rooms are made of wood and thus not fire resistant. 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. EA recommended transferring one of these IT systems to another fire section. An alternative but only provisional solution could be to install a state-of-the-art fire protection system. In order to mitigate these risks, EA recommended reducing the prevailing fire load immediately.	Management agreed with my findings and recommendation. The recommendation has been noted.	EA will follow up on the process.
		Status as of 30 November 2016	
		In progress: Funding constraints didn't allow the implementation yet. However, selective measures may be possible in 2017 such as installing fireproof doors.	UNIDO has implemented some recommendations but did not take any further measures. This is due to the fact that UNIDO postponed them until funds are available to carry them out in a single operation. In my view, every additional measure will increase the effectiveness of fire protection. In particular, installing fireproof doors and closing the holes in the walls should help to extend the period before fire, smoke and heat spread to the other rooms and the important IT components. EA will follow up on the process.
# 118	The official UNIDO policy for IT and IT security has not been updated since 2011. During this time several large changes happened in the UNIDO IT environment. EA recommended issuing and implementing a comprehensive official document outlining UNIDO 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 current changes and to add the planning for the next year.	Management agreed with my findings and recommendation. The recommendation has been noted.	EA will follow up on the process.
		Status as of 30 November 2016	
		In progress: The policy document is presently being edited and expanded in preparation for a 2017 review and update cycle.	EA will follow up on the process.
External Audit Report for 2015			
# 24	User maintenance needs authorizations for creating, changing and deleting users, and for other administrative activities. According to para. 219 of UNIDO Internal Control Framework, segregation of duties is implemented by granting systems administration rights exclusively to Technology and Information Systems Division staff. EA recommended terminating authorizations in the	Efforts will be made to clean up the User Maintenance access for non-essential users in the production system.	EA will follow up on the process.

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
	production system that do not comply with UNIDO SAP roles and authorization concept.	***Status as of 30 November 2016*** Completed: Roles for specific TIS tasks were created.	**This item is closed.**
# 30	UNIDO documents concerning SAP roles and authorizations do not reflect the CUA concept. These documents neither consider the roles which have been changed, completed and extended since the SAP system implementation. What is more, there is not yet a comprehensive manual in place about how departments and TIS work together in creating, changing and deleting users and authorizations. EA recommended that TIS revise and update the basic documents in co-operation with the departments and, thereby, consider CUA appropriately. Furthermore, it should compile a detailed instruction about the co-operation between TIS and the departments concerning SAP users and authorizations.	TIS is currently working on updating manuals and documentation of the SAP roles and authorizations. ***Status as of 30 November 2016*** In progress: A detailed instruction concerning the SAP authorizations and roles has been created to provide a clear overview and the necessary guidelines to SAP users requesting for authorizations.	EA will follow up on the process. EA will follow up on the process.
# 35	The principle of segregation of duties is reflected in the UNIDO Internal Control Framework. According to para. 133 of this framework, segregation of duties involves the segregation of the respective roles of: approving officers for obligations; officials authorized to enter into commitments on behalf of the Organization; approving officers for payments, approving officers for disbursement of funds; and authorized signatories for banking instructions. Segregation of duties is still lacking. A culmination of authorizations exists by several users. Even though UNIDO built in barriers in the process chain, we are still worried about those users who have financial and administrative authorizations in CUA. In order to mitigate this risk, EA recommended that ITC and FIN update the current authorizations and bring them in line with the tasks of each user.	As discussed with and communicated to EA, all the roles were initially assigned during the implementation phase based on the roles and authorization blue print. These have been continuously updated based on the request of the business/key users. The four eye principle has been activated within SAP. Concerning the specific observation of the segregation of duties, there are areas for further improving the authorization concept, especially with regard to the automatic blocking of open items. ***Status as of 30 November 2016*** In progress: After coordinating with SAP Finance, the segregation of duties is being implemented. By removing the roles and transactions as recommended by Finance, the functions of Accounts Payable and Treasury will be isolated as well as separate bank signatories that have the possibility to create bank files.	EA will follow up on the process. EA will follow up on the process.
# 42	The composite SAP_ALL profile contains all SAP authorizations, meaning that a user with this profile can perform all tasks in the SAP system. SAP recommends not assigning this authorization profile to any of the users. EA recommended checking whether the 15 “service users” are assigned to the appropriate user type and, if so, whether they need SAP_ALL authorizations.	As discussed with EA, the service users are required to ensure proper functioning of the SAP production system. As part of future authorization reviews, TIS will of course analyse if any of these accounts can be run without SAP_ALL. ***Status as of 30 November 2016*** Completed: The “service users” have been analysed regarding appropriate user type. The number of “service users” with SAP_ALL authorization has been reduced.	EA will follow up on the process. As service users are capable of interaction through SAP GUI, only very restricted authorizations should be assigned to service users as recommended by SAP. The

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
			number of service users should be further reduced EA will follow up on the process.
# 48	The productive indicator "XPROD" prevents data within the company code from being deleted by the programs for deleting test data. The SAP guidelines recommend that the indicator be set when transferring the development system to the production system. EA recommended setting the productive indicator to protect the data from being deleted.	At the moment, the production systems are locked by the SAP transaction code "SCC4". Therefore, direct changes/configuration in the production system is strictly controlled i.e. via change and risk management approval process only. Depending on the results of tests, the company code may be set to "productive". ***Status as of 30 November 2016*** In progress: Numerous activities have been carried out in order to improve the security and the segregation of duties. As PPS/ITC/TIS needs to ascertain the implications of setting the company code as productive, it has been changed in DEV and QUA systems and the impact is currently being evaluated.	EA will follow up on the process.
# 66 (see 2014 EA Report # 44)	The ongoing increase in current and non-current voluntary contributions receivable speeded up from almost 60 per cent in 2014 to 92 per cent in 2015. As a result, more than one quarter of UNIDO total assets consist of voluntary contributions receivable. EA pointed out again that the development might bear risks for the future. Voluntary contributions receivable in 2015 will be spent for technical cooperation programmes in the next years, whereas post-employment benefits are expected to rise continuously over the same period. Once more, EA recommended that Management keep a very close eye on the development over the next years.	The development of voluntary contributions is an essential indicator of the demand for UNIDO services. It is under permanent scrutiny of Management and regularly reviewed by the policymaking organs. ***Status as of 30 November 2016*** Voluntary contribution inflow continues to be healthy; Management is exploring ways of soliciting voluntary funding for core activities to relieve the stress on the regular budget.	EA will follow up on the process. see 2016 EA report # C.3., 47 - 51
# 73	UNIDO increased its investments in short-term deposits in US-dollar. The ratio between investments in dollar and euros was 56 per cent to 44 per cent as at 31 December 2015. Because of the higher interest rate for holdings in dollar the increase of these investments is sensible. On the other hand, UNIDO may have an exchange rate risk if investments in dollar have to be transferred back into euros. Therefore, EA recommended that the amount held in dollar not be significantly higher than the obligations to be fulfilled in dollar.	The assumption that UNIDO increased its investments in USD because the USD interest rate was higher than the EUR rate is incorrect. UNIDO managed to keep the ratio of the funds in the two currencies in proportion to the disbursements needed in each currency. Management agreed with the comment that amounts held in USD should not be significantly higher than the obligations to be fulfilled in USD and we believe that this was achieved in 2015. ***Status as of 30 November 2016*** This year, there was a turnaround in income, whereby as of November 2016, EUR/USD income represented 53% and 47% respectively. The expense ratio represented 48.5% on EUR and 51.5% on USD. This represents as of November 2016 about 9% disparity between income and expenditures. Instead of exchanging the currency difference (since there is no immediate need for this), we have decided for a financially less invasive option: to execute imprest account transfers or selected USD HQ expenditures in EUR (as it was in the past). Management will evaluate the impact of this decision throughout the year 2017.	EA will follow up on the process. **This item is closed.**
# 78	Within the euro zone, UNIDO is confronted with falling	UNIDO agreed with the comment that	EA will follow up on the

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
	interest rates, even with penalty interests. Due to the good relationship with the counterpart banks, UNIDO was able to manage term deposits in euros with zero or small interest rates. Unfortunately, UNIDO prolonged one deposit for 97 days with a negative interest rate. EA was of the opinion that UNIDO could have avoided the penalty interest. For the actual financial situation, EA recommended that no investment with interest rates below zero per cent be accepted.	investments with negative interest rates should be normally refrained from. However, UNIDO could not avoid the penalty interest in the quoted case and invest the funds somewhere else at that point of time since all of our counterparties offered negative interests. In summary, the overall investment performance, including its EUR segment, was better than the average market conditions. The single transaction that yielded negative interest was unavoidable at that moment and had no material influence on the yearly interest earnings ***Status as of 30 November 2016*** In the year 2016, UNIDO didn't have any negative interest rates on any of its investments, despite the unfavourable market conditions.	process. **This item is closed.**
# 87 (see 2014 EA Report # 59)	The allowance amount for doubtful accounts increased by 1.7 million euros to a total of 91.4 million euros. More than 71 million euros of the allowance refer to doubtful assessed contributions of former Member States. The total outstanding amounts (without former Member States) increased to a total of 32.1 million euros. Once again, EA reminded 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 financial health according to incurred commitments. All Member States and Management should enforce the efforts to negotiate payment plans with Member States being in arrears.	Management confirmed the importance of payment plans and its continued efforts in negotiating such with member states having arrears. ***Status as of 30 November 2016*** In the year 2016, two Member States have successfully completed their payment plans (Republic of Moldova and Ukraine). New Payment plan was signed with Armenia (10 year duration); another payment plan with Kyrgyzstan is being negotiated (5 years).	EA will follow up on the process. see 2016 EA report C.3.1.2., # 57 - 62
# 91 (see 2014 EA Report # 62)	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 Management in order to reduce arrears. After agreeing to a payment plan, a member state is permitted to pay arrears by yearly instalments. Anyhow, the payment plans do not include any regulation by which order the payments are credited. In accordance with financial regulation 5.5 (c), UNIDO credits the payments always to the oldest arrears, even if a payment plan is agreed. The agreement to pay arrears in instalments and to pay current assessed contribution does not comply with mentioned financial regulation to credit the payments to the oldest arrears. EA recommended that UNIDO either add a special paragraph to the financial regulations on credits of payments under a payment plan or explicitly refer to financial regulation 5.5 (c) explicitly in the payment plans.	All payment plans fully complied with the relevant financial regulations; any instalment payment received was applied against the oldest arrears. The inclusion of the current assessments in the plan ensures that at the end of the servicing period the entire amount of assessed contributions was paid, due at the time of the expiration of the plan. There is no need to add a new paragraph to the financial regulations; the text of future payment plans might be improved to remove any doubt about the applicability of the financial regulation. ***Status as of 30 November 2016*** The standard text of the payment plan agreement was amended to explicitly refer to financial regulation 5.5 (c) for future payment plans.	EA will follow up on the process. **This item is closed**
# 97	Even though voluntary contributions are most welcome,	Management is fully aware of the need to	EA will follow up on the

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
(see 2014 EA Report # 69)	increasing voluntary contributions and a constant regular budget jeopardize the DG development objectives. Furthermore, included programme support costs do not fully cover the administrative costs of the organization. The additional expenditure for the organization is borne by the regular budget on the expense of all member states. As last year, EA recommended that Management observe the current and future situation and ensure a balance between voluntary contributions and the regular budget to finance UNIDO. The massive increase in voluntary contributions may help UNIDO to reach its goals but it may also bear risks for the future.	have the right balance between assessed and voluntary contributions. The current trend in the entire UN system is a shift away from assessments; the key issue is rather mobilizing funds with a non-tied character. ***Status as of 30 November 2016*** See the status #66.	process. see 2016 EA report C.3.1.3., # 63 - 69
# 108 (see 2014 EA Report # 80)	UNIDO performance more than doubled. Again, a significant part of the surplus results from currency translation differences that are only accounted for as profits. The euro/dollar exchange rate decrease at year-end impacted UNIDO performance in 2015 once again. Therefore, EA reaffirmed the last year's recommendation that Management continue to generate revenues and to limit expenditures.	Management will continue its efforts of income generation. Budgetary expenditures were and will be limited to the level of available funds. ***Status as of 30 November 2016*** Please consider the response to #66 and the initial comment above.	EA will follow up on the process. **This item is closed.**
# 130	In the Open Text system a set of standardized folders is provided in conjunction with the creation of a new SAP Portfolio and Project Management Item or PPM Project. The KMC Documents Management Guideline defines where a certain document should be stored according to its specific contents. While examining the documentation for the selected projects, EA found that some documents were not stored in the relevant folders specified by KMC Documents Management Guideline or were not available at all in the PPM Item/Project workspace. EA recommended raising awareness among staff about the necessity of a complete and structured storage of project documents. New staff should be acquainted with the structure of SAP PPM folders and the stipulations of KMC Documents Management Guideline. UNIDO should examine whether KMC Documents Management Guideline meets the requirements of users and revise the regulations, where necessary. The KMC Documents Management Guideline should also be updated with regard to the demands of the new Open Data Platform.	Management took note of the recommendations. Management also observed that the reason for such a storing practice stems from the fact that at the time of the initial introduction of the system documents could be uploaded directly into the system without a predefined structure. The document hierarchy was designed and introduced later. The filing for ongoing projects mostly has been completed using the same, original storage system to avoid disruption and facilitate access to the documents. ***Status as of 30 November 2016*** Completed: To raise awareness among staff about the necessity of a complete and structured storage of project documents, a series of OpenText trainings have been held during 2016. Updating the document management guideline and monitoring of usage falls under the responsibility of PTC.	EA will follow up on the process. **This item is closed.**
# 137	EA found that some of the relevant manuals and guidelines were not up to date. The documents were stored in different locations in UNIDO Intranet. None of the documents was contained in the Open Text Documents subfolder 'Manuals and User Guides'. EA recommended that UNIDO update the outdated guidelines and manuals in a timely manner, especially	Management recognized the need to update manuals and guidelines or develop new ones. According to Management, guidelines/manuals related to UNIDO processes and procedures are continuously updated by the respective departments/units. Updated content is to be published in the	EA will follow up on the process.

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
	with regard to the changes induced by the new ERP system. In order to facilitate the access of all staff to guidelines and manuals that is essential for their work, these documents should be aggregated in a central folder in the ERP system. If a guideline or manual is dispensable, UNIDO should consider suspending the regulation and removing the respective document from UNIDO Intranet or ERP system.	appropriate systems locations. However, the timely revision of these documents is hugely dependent on resource availability, particularly human resources.	
		Status as of 30 November 2016	
		In progress: The OpenText-related manuals are updated and maintained in OpenText at: 1. UNIDO: Events, Learning and Training: Manuals and User Guides: ICT Manuals including SAP: OpenText (Updated May 2016) 2. UNIDO: Events, Learning and Training: Manuals and User Guides: TC Project Management and Implementation: 04 OpenText Workflows (Updated July 2016)	**This item is closed.**
# 142	Capitalizing a minimum threshold for items above 600 euros is required in the Property Management Manual. Items below the capitalization threshold are recorded as expenses in the year of purchase. Currently, the SAP Asset Management System captures all items above 600 euros. Items with a value below 600 euros will be recorded automatically if they are purchased through the SAP Shopping Cart procedure. Items which are not automatically captured in the system have to be recorded separately for capitalizing. EA recommended capturing attractive assets below the threshold of 600 euros in SAP Asset Management System as required by Property Management Manual.	Management took note of the recommendation and stated that this issue will require an assessment of the feasibility of entering such attractive items in the SAP Asset Module and the related workflow.	EA will follow up on the process.
		Status as of 30 November 2016	
		Completed: All attractive assets below the threshold have been recorded and are tracked.	see 2016 EA report D.3.1., # 151 - 156
# 147	For all property plant and equipment issued to UNIDO country offices, physical inventories verifications should be scheduled and arranged annually. EA was provided with a list of the physical inventory prepared by the Field Office in Morocco and a certified list of the assets from Headquarters on the same issue. The comparison revealed that many assets were not included in Headquarters inventory list. Physical verification of inventories is an important part of an organization's internal controls over assets. EA recommended removing the discrepancies between these inventory records and raising awareness among staff about the importance of an inventory reconciliation process for the validity of financial records.	Management pointed out that the field offices are responsible for the physical inventory verification. Therefore, once a year UNIDO Field Offices are requested to update the inventory list. The Headquarters staff could only rely on the results of physical inventory verification by the Field Office.	EA will follow up on the process.
		Status as of 30 November 2016	
		The yearly inventory verification is currently being carried out in order to remove discrepancies as well as raise awareness of the importance of the inventory reconciliation process for the validity of the financial records.	see 2016 EA report D.3.2., # 157 - 165
# 152	At the Field Office in Morocco, my team only looked through petty cash records which did not comply with the Guidelines for Petty Cash Management and Minor Bank Transfers. EA recommended that UNIDO remind the responsible petty cash custodian to meet the requirements of the guidelines.	UNIDO will remind the responsible petty cash custodian and will send Guidelines for Petty Cash Management and Minor Bank Transfers to UNIDO Field Office.	EA will follow up on the process.

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
		Status as of 30 November 2016	
		Admin Assistants in FO (incl. Morocco) were contacted and reminded on correct Petty Cash Management and Minor Bank Transfers.	**This item is closed.**
# 156	For the preparation of the field visit, EA examined employment contracts of staff members in the Field Offices in Morocco and Tunisia. In two cases, the relevant remuneration for locally recruited staff was denominated in euros instead of in the local currency. The specified amount, however, was the same as the sum in local currency resulting from the applicable salary scale not converted to euros. A test run of a new contract for locally recruited staff showed that the system automatically creates an appointment letter that contains the applicable remuneration denominated in the respective national currency. EA recommended ensuring that the correct currency denomination is automatically included in appointment letters and cannot be changed manually. UNIDO also might want to consider the possibility of dispensing with the specification of an amount payable in the appointment letters and merely referring to the applicable salary scale according to grade, step and category of staff.	Management agreed that changes in the systems control be initialized. Management also agreed to dispense with the specification of an amount payable in the appointment letters and to merely refer to the applicable salary scale according to grade, step and category of staff as this would reduce manual checking.	EA will follow up on the process.
		Status as of 30 November 2016	
		Completed: the Letters of Appointments now only reflect the grade and levels.	**This item is closed.**
# 161	Complementary to my last year's audit on UNIDO BMS, which mainly focused on BMS regulatory framework, missions, overall risks and staffing, this year's audit prioritized the assessment of its organizational structure and processes. EA welcomed the appointment of the new BMS chief and the initiative to task an external expert with developing a new and efficient structure for BMS. EA recommended that UNIDO continue to strengthen BMS.	Management took note of my observations and continued to implement new processes and workflows.	EA will follow up on the process.
		Status as of 30 November 2016	
		BMS' requirements have been analysed in terms of structure and processes have been streamlined to increase efficiency in operations, use of resources and decision making. The review of the structure of BMS included the assessment of the post/staffing requirements for each area, the redeployment of resources, development of job descriptions and revision of staff profiles. A critical part of the process was the revision of the structure within the Teams/Workshops to ensure that: a) all the Teams and Workshops are appropriately staffed and able to carry out complex and routine tasks in accordance with Austrian rules and regulations during the entire year; and b) establish a clear hierarchical structure which improves the supervisory capability within the Teams/Workshops, warrants the quality of service expected from VBOs as well allow the workforce flexibility required to respond fast to ad-hoc requests.	see 2016 EA report D.2., # 122 - 150
# 173 **(see 2014 EA Report # 103)**	In accordance with the Headquarters' Agreement, UNIDO, through BMS, has the overall responsibility for maintaining, repairing and upkeeping VIC complex vis-à-vis the Host Government. As a consequence of BMS role, the sole responsibility includes any changes to VIC, notably the implementation of any construction projects related to and funded by the individual VBOs. This task is	Management took note of my observations.	EA will follow up on the process.

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
	not adequately reflected in BMS current set-up; it does not only bind resources but requires staff to possess the necessary technical expertise and good project management skills. EA made recommendations, especially to reiterate the overall responsibility and to recruit the required staff.	***Status as of 30 November 2016*** The recruitment process is progressing well and with the full support of HRM, 15 out of 42 positions have been filled already. While the initial focus was on the G2-G3 positions, in the coming months senior technician vacancies at the G4, G5 and G6 level will be advertised.	see 2016 EA report D.2., # 122 - 150
# 219 (see 2014 EA Report # 108, # 126, # 127)	The governance structure in UNIDO now urgently needs improvement. It can be considered as unsatisfactory in one part but critical to internal audit. EA once again recommended providing adequate staffing for the Office of Internal Oversight and Ethics. Additionally, EA continues to recommend establishing an Audit Committee.	It should be noted that limited staffing has been raised on numerous occasions by various oversight entities; however, due to budgetary constraints, Management has not been able to accommodate this request yet. The issue of an Audit Committee has advanced.	EA will follow up on the process.
		Status as of 30 November 2016 A presentation and briefings were made to Member States after which the IDB decided to establish the Audit Committee and approved the Terms of Reference at its 44th session in November 2016; membership of the Audit Committee will be agreed with Member States at the 45th session in June 2017. The recruitment of the vacant auditor is in progress; however, staffing remains an issue due to continuing budgetary constraints under which the Organization has to operate. Member States might wish to consider making funds available for the Office of Internal Oversight and Ethics posts in the Programme and Budget for 2018-2019.	see 2016 EA report D.5., # 182 - 187

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016.

Assessed contributions

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

Table 1
Assessed contributions

	2016		*2015*	
	Millions of euros	*Percentage*	*Millions of euros*	*Percentage*
Assessed contributions receivable	68.2	100.0	71.2	100.0
Received as at 31 December 2016	60.0	88.1	64.1	90.0
Shortfall in collections	8.2	11.9	7.1	10.0

3. The rate of collection of assessed contributions for the year 2016 was 88.1 per cent, which is lower than that for 2015 at 90.0 per cent. The accumulated outstanding assessed contributions at year-end were €22.0 million, excluding an amount of €71.2 million due from former Member States, leading to an increase from 2015 (€32.0 million). Annex I (e), contained in conference room paper PBC.33/CRP.3, provides details on the status of assessed contributions. Two Member States, Ukraine and the Republic of Moldova, have fulfilled their obligations under payment plan agreements. Costa Rica and Armenia are on schedule with their payments. The number of Member States without voting rights was 45 in December 2016; in December 2015, it was 44.

Performance based on the budget basis

4. 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.

5. 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 2016.

6. The comparison is based on the programme and budgets for the year 2016, as adopted by the General Conference at its sixteenth session (decision GC.16/Dec.15), consisting of regular budget annual gross expenditure of €68.4 million to be financed from assessed contributions in the amount of €67.2 million and other income of €1.3 million.

7. On a budget basis, the actual regular budget expenditure during the year 2016 amounted to €61.4 million (compared with €73.4 million for the year 2015), or 89.7 per cent (compared with 87.2 per cent for the year 2015) of the approved gross expenditure budget.

8. Actual collection of budgeted other income for the year 2016 amounted to €0.15 million from Government contributions to the cost of the field office network and €0.06 million under miscellaneous income, against a budgeted amount of €0.04 million. After taking into account the actual miscellaneous income not estimated at the General conference of €2.6 million, the total net expenditure of €58.6 million represents 87.2 per cent of the net regular budget appropriations of €67.2 million. The resulting balance of net appropriations as at 31 December 2016 amounted to €8.6 million (see annex I (a) and I (b), PBC.33/CRP.3).

9. In the operational budget for the year 2016, the reimbursement for programme support costs amounted to €16.9 million (for 2015: €17.7 million). Expenditure was recorded in the amount of €15.3 million (for 2015: €13.7 million), resulting in an excess of income over expenditure in the amount of €1.6 million. Consequently,

the closing balance of the special account for programme support costs, i.e. the level of the operating reserve, on modified cash basis, was €15.7 million, compared with an opening balance of €14.1 million.

10. Technical cooperation delivery for the year 2016, as measured under IPSAS, amounted to €157.4 million in expenditure compared to €148.1 million in 2015. More information on UNIDO's technical cooperation services is available in the *Annual Report of UNIDO 2016* (PBC.33/2).

11. The Organization shows a healthy financial situation, as evidenced by the steady inflow of voluntary contributions in 2016 of €217.9 million (2015: €228.8 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

12. 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

13. During 2016, 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.

Conclusion

14. In 2016, UNIDO celebrated its 50th Anniversary. During these five decades, UNIDO became fully recognized for its achievements in the domain of industrial development. We are proud to see our mandate of inclusive and sustainable industrial development (ISID) fully reflected in the Sustainable Development Goals. Furthermore, the General Assembly proclaimed 2016–2025 as the Third Industrial Development Decade for Africa, with a resolution that calls on UNIDO "to develop, operationalize and lead the implementation of its "programme". In 2016 we therefore did not only celebrate our past, but, most importantly, we looked at our present and projected to our future how we could increase our contribution to the 2030 Agenda for Sustainable Development. In this spirit, I wish to take this opportunity to express my appreciation to Member States and to the donors for their overall 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 2016

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]	*[signed]*
LI Yong Director General	Peter Ulbrich Director, Department of Finance

Vienna, 15 March 2017

Statement 1: Statement of financial position as at 31 December 2016
(*Thousands of euros*)

	Note	31 December 2016	31 December 2015 (restated)
		€ '000	*€ '000*
ASSETS			
Current assets			
Cash and cash equivalents	2	507,211	439,714
Accounts receivable (non-exchange transactions)	3	158,646	152,845
Receivables from exchange transactions	3	2,153	12,041
Inventory	4	942	1,080
Other current assets	5	23,310	28,310
Total current assets		**692,262**	**633,990**
Non-current assets			
Accounts receivable (non-exchange transactions)	3	70,602	72,857
Property, plant and equipment	7	61,850	64,154
Intangible assets	8	1,476	2,424
Other non-current assets	9	4,147	1,513
Total non-current assets		**138,075**	**140,948**
TOTAL ASSETS		**830,337**	**774,938**
LIABILITIES			
Current liabilities			
Accounts payable (exchange transactions)	10	2,555	4,792
Employee benefits	11	2,904	3,024
Transfers payable (non-exchange transactions)	10	21,757	38,150
Advance receipts	12	74,394	86,703
Other current and financial liabilities	13	18,864	21,521
Total current liabilities		**120,474**	**154,190**
Non-current liabilities			
Employee benefits	11	258,160	217,521
Other non-current liabilities	13	37,150	38,940
Total non-current liabilities		**295,310**	**256,461**
TOTAL LIABILITIES		**415,784**	**410,651**
NET ASSETS/EQUITY			
Accumulated surpluses/(deficits) and fund balances	14	399,239	347,333
Reserves	15	15,314	16,954
TOTAL NET ASSETS/EQUITY		**414,553**	**364,287**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**830,337**	**774,938**

Statement 2: Statement of financial performance for year ended 31 December 2016
(*Thousands of euros*)

	Note	31 December 2016	31 December 2015 (restated)
		€ '000	*€ '000*
INCOME/REVENUE			
Assessed contributions	16	68,234	71,200
Voluntary contributions	16	217,877	228,779
Investment revenue	16	551	18
Revenue producing activities	16	382	580
Other income	16	4,225	4,310
TOTAL REVENUE		**291,269**	**304,887**
EXPENDITURE			
Salaries and employee benefits	17	121,040	126,293
Operational costs	17	25,574	26,681
Contractual services	17	62,947	55,785
TC equipment expensed	17	5,817	6,165
Depreciation and amortization	17	8,206	7,646
Other expenses	17	1,566	574
TOTAL EXPENDITURE		**225,150**	**223,144**
Currency translation differences	17	(4,702)	(33,272)
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD		**70,821**	**115,015**

Statement 3: Statement of changes in net assets for year ended 31 December 2016
(*Thousands of euros*)

	Note	Accumulated surplus/ (deficit)	Reserves	Total net assets/ equity
			€ '000	
Net assets/equity at the beginning of the year		**348,617**	**16,954**	**365,571**
De-recognition of investments in equity of joint ventures	1.18, 23	(1,284)	-	(1,284)
Net assets/equity at the beginning of the year (restated)		**347,333**	**16,954**	**364,287**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities	11, 14	(27,684)		(27,684)
Transfer (to)/from provision for delayed contribution	14	9,580		9,580
Transfer to/(from) reserves	15		(1,640)	(1,640)
Other movements recognized directly in net assets/equity	14	(811)		(811)
Net movements recognized directly in net assets/equity	14, 15	**(18,915)**	**(1,640)**	**(20,555)**
Credits to Member States	14, 15	-		-
Net surplus/(deficit) for the year		70,821		70,821
Total movement during the year		**51,906**	**(1,640)**	**50,266**
Net assets/equity at the end of the year		**399,239**	**15,314**	**414,553**

Statement 4: Cash flow statement for year ended 31 December 2016
(*Thousands of euros*)

	Note	31 December 2016	31 December 2015 (restated)
		€ '000	*€ '000*
Cash flows from operating activities			
Surplus/(deficit) for the period		**70,821**	**115,015**
Foreign-exchange (gains)/losses on cash and cash equivalents		(10,752)	(24,055)
Depreciation and amortization	7, 8	8,206	7,646
Increase/(decrease) in provision for contributions	3	9,580	(1,486)
Valuation gains/(losses) on employee benefit liabilities	11	(27,684)	15,530
(Increase)/decrease in inventories	4	138	218
(Increase)/decrease in receivables	3	6,342	(104,652)
(Increase)/decrease in other assets	5	2,366	(7,808)
Increase/(decrease) in advance receipts	12	(12,309)	(24,069)
Increase/(decrease) in accounts payable	10	(18,630)	25,601
Increase/(decrease) in employee benefits	11	40,519	(11,049)
Increase/(decrease) in other liabilities and provisions	13	(4,447)	2,120
(Gains)/losses on sale of property, plant and equipment	7	6,932	10,536
Investment/Interest income	6, 16	(551)	(18)
Movements in reserves and provisions	14, 15	(1,640)	(1,969)
Other movements		(811)	710
Net cash flows from operating activities		**68,080**	**2,270**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(11,775)	(19,033)
Purchase of intangible assets	8	(117)	(296)
Proceeds from sale of PPE	7	6	24
Cash flow from investments interest	16	551	(209)
Net cash flows from investing activities		**(11,335)**	**(19,514)**
Cash flows from financing activities			
Credits to Member States	14	-	(9,954)
Net cash flows from financing activities		**-**	**(9,954)**
Net increase/(decrease) in cash and cash equivalents		**56,745**	**(27,198)**
Cash and cash equivalents at beginning of the financial period		439,714	442,857
Foreign-exchange gains/(losses) on cash and cash equivalents		10,752	24,055
Cash and cash equivalents at the end of the financial period	2	**507,211**	**439,714**

Statement 5: Statement of comparison of budget and actual amounts for year ended 31 December 2016

(*Thousands of euros*)

Regular budget	Original budget	Final budget	Actuals on comparable basis	Balance of appropriations
	€ '000			
Cost component				
Staff costs	45,887	45,887	43,124	2,763
Official travel	974	974	533	441
Operating costs	13,840	13,840	11,235	2,605
Information and communications technology	3,268	3,268	1,966	1,302
Regular programme of technical cooperation, and special resources for Africa	4,476	4,476	4,550	(74)
Total	**68,445**	**68,445**	**61,408**	**7,037**

Operational budget	Original budget	Final budget	Actuals on comparable basis	Balance of appropriations
	€ '000			
Cost component				
Staff costs	15,461	15,461	14,454	1,007
Official travel	923	923	681	242
Operating costs	484	484	130	354
Total	**16,868**	**16,868**	**15,265**	**1,603**

Total	*Note*	Original budget	Final budget	Actuals on comparable basis	Balance of appropriations
		€ '000			
Cost component					
Staff costs		61,348	61,348	57,578	3,770
Official travel		1,897	1,897	1,214	683
Operating costs		14,324	14,324	11,365	2,959
Information and communications technology		3,268	3,268	1,966	1,302
Regular programme of technical cooperation, and special resources for Africa		4,476	4,476	4,550	(74)
Total	18	**85,313**	**85,313**	**76,673**	**8,640**

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 operations of Buildings Management Services, Vienna International Centre and Major Repair and Replacement Fund 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 2016 and ending on 31 December 2016.

Currency and basis for conversion

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

Translation and conversion of currencies

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

1.15 Monetary assets and liabilities denominated in other currencies are converted into euros at the 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.

Restatement of prior year comparative financial information as a result of adoption of IPSAS 34 to 38

1.18 UNIDO has adopted IPSAS 34 to 38, with effect from 1 January 2016. These standards replace IPSAS 6 to 8 and deal with Separate and Consolidated Financial Statements (IPSAS 34 and 35 respectively), Accounting for Investments in Associates and Joint Ventures (IPSAS 36), Joint Arrangements (IPSAS 37), and Disclosure of Interests in Other Entities (IPSAS 38). The adoption of the above standards resulted in restatement of investments in equity of joint ventures, revenue and related amount of net assets (Note 23). Further information with respect to the activities of the commissary and of the catering services can be found in Note 6 “Interest in joint arrangements and other entities”.

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	15-100
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 arrangements

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

(a) For joint 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 joint ventures, UNIDO applies the equity method of accounting.

1.45 These general purpose financial statements include the applicable share of the joint arrangements established by a memorandum of understanding concerning the allocation of the common services at the Vienna International Centre entered into by the Vienna-based organizations in 1977. The common services include catering, buildings management, the Commissary 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 2016	*31 December 2015*
	(thousands of euros)	
Cash and cash equivalents		
Cash in the bank and on hand	116,403	122,981
Term deposits with original maturity up to 12 months	387,650	314,402
Cash and cash equivalents held in field offices	3,158	2,331
Total cash and cash equivalents	**507,211**	**439,714**

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 note 19A.

2.2 Cash and cash equivalents include cash and term deposits equivalent to €254,454 (2015: €217,166) 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 €1,725 (2015: €1,021) 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 0.05 per cent and 0.68 per cent for holdings in euros and United States dollars respectively (2015: 0.13 per cent and 0.26 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 2016	*31 December 2015*
	(thousands of euros)	
Current		
Receivable from non-exchange transactions		
Due from Member States: assessed contribution	93,176	103,162
Due from Member States: other	44	215
Voluntary contributions receivable	146,153	139,180
VAT and other taxes recoverable	3,284	3,552
Total accounts receivable before allowance	**242,657**	**246,109**
Allowance for doubtful accounts	(84,011)	(93,264)
Net accounts receivable from non-exchange transactions	**158,646**	**152,845**
Receivable from exchange transactions		
Receivables from United Nations organizations	1,544	10,887
Receivables: other	1,189	1,734
Allowance for doubtful accounts	(580)	(580)
Net accounts receivable from exchange transactions	**2,153**	**12,041**
Non-current		
Receivable from non-exchange transactions		
Due from Member States: assessed contribution	65	98
Voluntary contributions receivable	70,567	72,809
Allowance for doubtful accounts: assessed contribution	(30)	(50)
Total receivable from non-exchange transactions	**70,602**	**72,857**

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):

	2016	*2015*
Length of time contributions were outstanding	*(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 2016	31 December 2015
	(thousands of euros)	
Allowance for bad and doubtful accounts at beginning of the year	**91,498**	**90,012**
Change during the year	(9,580)	1,486
Allowance for bad and doubtful accounts at the end of the year	**81,918**	**91,498**

3.3 Total allowances for bad and doubtful accounts of €84,622 (2015: €93,895) consist of €81,918 (2015: €91,498) against assessed contributions receivable and €2,704 against other receivables (2015: €2,397).

3.4 Non-current contribution receivables are for confirmed contributions from donors and Member States due after more than one year from the reporting date in accordance with agreed payment plans and project phasing.

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 2016		31 December 2015	
	(thousands of euros)	*(percentage)*	*(thousands of euros)*	*(percentage)*
Age				
1-2 years	15,342	16.5	13,523	13.1
3-4 years	1,312	1.4	4,662	4.5
5-6 years	296	0.3	2,155	2.1
7 years and more	76,292	81.8	82,920	80.3
Total contributions receivable before allowance	**93,242**	**100.0**	**103,260**	**100.0**

Note 4. Inventories

	31 December 2016	31 December 2015
	(thousands of euros)	
Opening inventory	1,080	1,298
Purchased during the year	229	214
Total inventory available	**1,309**	**1,512**
Less: consumption	(367)	(433)
Less: write-up/(down)	-	1
Closing inventory	**942**	**1,080**

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 2016, UNIDO wrote down inventories by an amount of €0 (2015: €0) on account of obsolescence and other losses.

Note 5. Other current assets

	31 December 2016	31 December 2015
	(thousands of euros)	
Advances to vendors	19,100	22,271
Advances to staff	2,992	2,807
Accrued interest	313	99
E-IOV items	898	2,377
Other current assets	7	756
Total other assets	**23,310**	**28,310**

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 in 2015 includes advances to the Buildings Management Services fund.

Note 6. Interest in joint arrangements and other entities

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 arrangements is based on the cost-sharing ratios applicable to the corresponding reporting periods. Cost-sharing ratios for UNIDO were as follows:

2016	14.185 per cent
2015	14.340 per cent

Buildings Management Services

6.3 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.

6.4 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 note 12).

Buildings Management Services: summary financial information

	31 December 2016	*31 December 2015*
	(thousands of euros)	
Income	21,556	20,784
Expenses	22,955	23,770
Assets, current	42,473	52,614
Assets, non-current	1,499	4,116
Liabilities, current	17,497	28,051
Liabilities, non-current	29,174	23,427
Net assets/equity	(2,699)	5,252

Major Repair and Replacement Fund

6.5 A common fund for the purpose of financing the cost of major repairs and replacement of buildings, facilities and technical installations of the Vienna International Centre was established by the Republic of Austria and the Vienna-based organizations under the responsibility of the joint Committee, comprising the respective representatives of the Republic of Austria and the Vienna-based organizations. The Major Repair and Replacement Fund is considered a joint operation with joint control shared among the Republic of Austria and the Vienna-based organizations. It has no legal status, and its assets and liabilities are held in the name of the Republic of Austria and UNIDO (UNIDO on behalf of the Vienna-based organizations).

6.6 The Republic of Austria and the Vienna-based organizations are making annual contributions to the Major Repair and Replacement Fund shared equally between the Republic of Austria and the Vienna-based organizations. The contribution of the Vienna-based organizations is shared among the individual organizations according to the approved ratio as described in paragraphs 6.1 and 6.2 above. As for Buildings Management Services, the 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 note 12).

Major Repair and Replacement Fund: summary financial information

	31 December 2016	*31 December 2015*
	(thousands of euros)	
Income	3,527	3,547
Expenses	4,057	3,554
Assets, current	9,083	10,090
Liabilities, current	73	550
Net assets/equity	9,010	9,540

Vienna International Centre

6.7 In 1967, the Republic of Austria provided a permanent headquarters building to the Vienna-based organizations for 99 years at a nominal rent of one Austrian schilling a year. The headquarters agreement of each organization states that the building would be made available without furnishings, and it would be used solely as the headquarters seat for the Vienna-based organizations with due regard to the owner's rights under Austrian law. The Vienna-based organizations would meet all operating costs, and bear the costs of maintenance of the building and of any necessary inside and outside repairs. The agreement shall cease to be in force if the headquarters seat of the Vienna-based organizations is removed from the designated area; a decision to move the seat is at the discretion of the individual organization, and there are no onerous conditions attached.

6.8 The Republic of Austria retains the ownership of the area constituting the headquarters seat. However, the Vienna-based organizations acquire the economic benefits and service potential of the use of the leased asset for the major part of its economic life. Therefore, the Vienna International Centre is considered a joint operation with joint control shared among the Vienna-based organizations. The commitment to retain the headquarters seat in the premises is reflected as a performance obligation (see note 13) representing the full value of the gift from the Republic of Austria, deferred until fulfilled, on an annual basis.

6.9 The Vienna International Centre is maintained by UNIDO’s Buildings Management Services under the management of the joint Committee on Common Services. Costs of major repairs are financed from the Major Repairs and Replacement Fund.

Vienna International Centre: summary financial information

	31 December 2016	*31 December 2015*
	(thousands of euros)	
Income	16,146	15,975
Expenses	16,146	15,975
Assets, non-current	266,371	277,043
Liabilities, non-current	266,371	277,043
Net assets/equity	-	-

6.10 Costs related to other common services, such as security and medical services, are expensed on a reimbursement basis. The amounts expensed during 2016 were €1,647 and €208 (2015: €1,863 and €212), respectively.

Other non-consolidated entities

Catering Service

6.11 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.

6.12 The benefits from operating the Catering Service flow to the staff of the Vienna-based organizations, delegates and VIC visitors, rather than to the Vienna-based organizations themselves. On dissolution, any residual net equity will be distributed to the staff welfare funds of UNIDO and other Vienna-based organizations.

6.13 The Catering Service has no legal personality of its own. Its assets and liabilities are held in the legal name of UNIDO. Therefore, UNIDO is potentially exposed to any residual liabilities of the Catering Service.

Catering Service: summary financial information

	31 December 2016	*31 December 2015*
	(thousands of euros)	
Revenue	127	125
Net operating expenses	-	(6)
Assets, current	1,705	1,578
Liabilities, current	1	-
Net assets/equity	1,704	1,578

Commissary

6.14 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.

6.15 Similarly to the Catering Service, the benefits flow to the entitled individuals, rather than to the Vienna-based organizations themselves. On dissolution, any residual net equity is distributed to the staff welfare funds of International Atomic Energy Agency (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.

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

Note 7. Property, plant and equipment

	Capitalization in progress and other property, plant and equipment	*Buildings*	*Furniture and fixtures*	*Information and communications technologies equipment*	*Vehicles*	*Machinery*	***Total***
	(thousands of euros)						
Cost							
At 31 December 2015	1,070	70,645	2,224	14,682	4,540	21,498	**114,659**
Additions	181	563	757	622	870	8,782	**11,775**
Disposals/transfers	(906)	(773)	(746)	(666)	(917)	(4,239)	**(8,247)**
At 31 December 2016	**345**	**70,435**	**2,235**	**14,638**	**4,493**	**26,041**	**118,187**
Accumulated depreciation							
At 31 December 2015	3	30,917	1,204	9,540	2,348	6,493	**50,505**
Depreciation charge during the year	810	2,068	179	607	506	2,991	**7,161**
Depreciation charge of joint venture	9	-	17	2,469	5	34	**2,534**
Disposals/transfers	(656)	(334)	(174)	(468)	(425)	(1,806)	**(3,863)**
At 31 December 2016	**166**	**32,651**	**1,226**	**12,148**	**2,434**	**7,712**	**56,337**
Net book value							
At 31 December 2015	**1,067**	**39,728**	**1,020**	**5,142**	**2,192**	**15,005**	**64,154**
At 31 December 2016	**179**	**37,784**	**1,009**	**2,490**	**2,059**	**18,329**	**61,850**

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 Property, plant and equipment items are reviewed annually to determine if there is any impairment in their value. During 2016, review of asset impairments indicated no impairments.

7.3 The gross carrying amount (value at cost) of fully depreciated property, plant and equipment items, excluding buildings, still in use amounts to €5,913 (2015: €5,655) 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 2015	-	1,029	5,384	**6,413**
Additions	-	116	-	**116**
Disposals/transfers	-	(5)	(16)	**(21)**
At 31 December 2016	-	**1,140**	**5,368**	**6,508**
Accumulated amortization				
At 31 December 2015	-	490	3,499	**3,989**
Amortization charge during the year	39	111	895	**1,045**
Disposals/transfers	(39)	37	-	**(2)**
At 31 December 2016	-	**638**	**4,394**	**5,032**
Net book value				
At 31 December 2015	-	**539**	**1,885**	**2,424**
At 31 December 2016	-	**502**	**974**	**1,476**

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 2016	*31 December 2015*
	(thousands of euros)	
Initial advance in Commissary	809	809
Advance to the Major Repair and Replacement fund	638	684
Buildings Management Services deferral	2,699	-
Other non-current assets	1	20
Total, non-current assets	**4,147**	**1,513**

9.1 Other non-current assets are due after more than one year in accordance with the terms of the agreements. This includes an initial advance in Commissary and an advance to the Major Repair and Replacement fund.

9.2 The Buildings Management Services deferral for negative net assets, due to the unfunded long-term employee benefits, represents a future receivable from Vienna-based organizations, which is to be received on a pay-as-you-go basis.

Note 10. Accounts payable

	31 December 2016	31 December 2015 (restated)
	(thousands of euros)	
Due to Member States	5,513	11,694
Payables to donors	7,744	7,334
Due to Vienna-based organizations	8,500	19,122
Payables to vendors	2,555	4,792
Total accounts payable	**24,312**	**42,942**

	31 December 2016	31 December 2015
	(thousands of euros)	
Composition:		
Payables from non-exchange transactions	13,257	38,150
Payable from exchange transactions	11,055	4,792
Total accounts payable	**24,312**	**42,942**

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.

10.3 Amounts due to Vienna-based organizations represent the refund of the excess funds over the established ceiling of the Buildings Management Services special account.

Note 11. Employee benefits

	31 December 2016			
	Actuarial valuation	UNIDO valuation	Total	31 December 2015
	(thousands of euros)			
Short-term employee benefits		2,904	2,904	3,024
Post-employment benefits	251,885		251,885	211,520
Other long-term employee benefits	6,275		6,275	6,001
Total employee benefit liabilities	**258,160**	**2,904**	**261,064**	**220,545**

	31 December 2016	31 December 2015
	(thousands of euros)	
Composition:		
Current	2,904	3,024
Non-current	258,160	217,521
Total employee benefit liabilities	**261,064**	**220,545**

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 2016, total employee benefit liabilities amounted to €261,064 (2015: €220,545), of which €258,160 (2015: €217,521) was calculated by the actuaries and €2,904 (2015: €3,024) 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 2016. 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 2016:

- *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*. 1.94 per cent (2015: 2.40 per cent) for after-service health insurance and 1.10 per cent (2015: 1.50 per cent) for repatriation, annual leave and end-of-service allowance.

- *Medical cost trend rates*. 4.77 per cent for 2016, 4.68 per cent for 2017, 4.59 per cent for 2018 and grading down to an ultimate rate of 4.50 percent in 2019 and beyond.
- *Rate of salary increase*. 2.00 per cent (2015: 2.00 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 (2015: 0.00 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	57,955	(43,676)
Effect on combined service and interest cost	3,618	(2,624)

Reconciliation of defined benefit obligation

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*End-of-service allowance*	*Total*
			(thousands of euros)		
Defined benefit obligation at 31 December 2015	**191,187**	**9,962**	**6,001**	**10,371**	**217,521**
Service costs	6,996	543	606	501	**8,646**
Interest costs	4,542	138	87	151	**4,918**
Actual gross benefit payments	(3,406)	(586)	(467)	(889)	**(5,348)**
Actuarial (gains)/losses	27,570	98	(3)	19	**27,684**
Actuarial (gains)/losses of joint operation	4,626	7	51	55	**4,739**
Defined benefit obligation at 31 December 2016	**231,515**	**10,162**	**6,275**	**10,208**	**258,160**

Annual expense for the year 2016

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*End-of-service allowance*	*Total*
			(thousands of euros)		
Service cost	6,996	543	606	501	**8,646**
Interest costs	4,542	138	87	151	**4,918**
Total expense	**11,538**	**681**	**693**	**652**	**13,564**

United Nations Joint Staff Pension Fund

11.12 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.

11.13 In 2016, UNIDO's contributions paid to the UNJSPF amounted to €7,811 (2015: €8,427).

11.14 The actuarial valuations are undertaken every two years, with the most recent valuation carried out as of 31 December 2015. The consulting actuary concluded that there was no requirement for deficiency payments under Article 26 of the Regulations of the UNJSPF.

Note 12. Advance receipts

	31 December 2016	*31 December 2015*
	(thousands of euros)	
Assessed contributions in advance	2,959	27
Voluntary contributions in advance	32,617	39,369
Advances from Vienna-based organizations	3,515	3,668
Deferred project income	7,098	5,506
Buildings Management Services deferral	-	5,252
Major Repair and Replacement Fund deferral	4,505	4,770
Performance obligation for voluntary contributions agreements	23,700	28,111
Total advance receipts	**74,394**	**86,703**

	31 December 2016	*31 December 2015 (restated)*
	(thousands of euros)	
Composition:		
Advances from non-exchange transactions	66,374	73,012
Advances from exchange transactions	8,020	13,691
Total advance receipts	**74,394**	**86,703**

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 and the Major Repair and Replacement Fund on behalf of the Vienna-based organizations (see note 6) are awaiting release for services to be delivered in the future.

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 2016	*31 December 2015*
	(thousands of euros)	
Deferred exchange gains	2,431	2,434
Accruals for goods/services received-but-not-paid	12,067	14,932
Deferred income — Vienna International Centre performance obligation	36,671	38,844
Other liabilities	4,366	4,155
Due to Buildings Management Services fund	383	-
Long-term guarantees — bank/rent deposit	96	96
Total other liabilities	**56,014**	**60,461**

	31 December 2016	*31 December 2015*
	(thousands of euros)	
Composition:		
Current	18,864	21,521
Non-current	37,150	38,940
Total other liabilities	**56,014**	**60,461**

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 Performance obligation represents the full value of the gift from the Republic of Austria for use of the Vienna International Centre building deferred until UNIDO fulfils its commitment to retain its headquarters seat on the premises on an annual basis. The net book value of UNIDO share of the self-financed leasehold improvements of €1,114 (2015: €884) reduces the performance obligation valued at the UNIDO share of the Vienna International Centre buildings net book value of €37,785 (2015: €39,728).

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

13.5 Due to Buildings Management Services fund represents the amount due for UNIDO's share of the negative net assets resulting from the unfunded long-term employee benefits mentioned under Note 9. These are paid on a pay-as-you-go basis by the Vienna-based organizations.

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 2016	**(156,762)**	**6,074**	**7,423**	**495,330**	**(3,448)**	**348,617**
De-recognition of investments in equity of joint ventures	(1,284)					**(1,284)**
Opening balance (restated)	**(155,977)**	**6,098**	**7,423**	**495,330**	**(5,541)**	**347,333**
Net surplus/(deficit) for the year	(733)	(163)	-	72,917	(1,200)	**70,821**

	Regular budget funds					
	General fund	*Regular programme of technical cooperation*	*Working Capital Fund*	*Technical cooperation funds*	*Other funds*	*Total*
	(thousands of euros)					
Subtotal	**(156,710)**	**5,935**	**7,423**	**568,247**	**(6,741)**	**418,154**
Movements during year						
Transfer (to)/from provision for delayed contribution	9,580	-	-	-	-	**9,580**
Actuarial gains/(losses)	(17,917)	-	-	(799)	(8,968)	**(27,684)**
Consolidation adjustments	(787)	(24)	-	-	-	**(811)**
Total movements during year	**(9,124)**	**(24)**	**-**	**(799)**	**(8,968)**	**(18,915)**
Closing fund balance 31 December 2016	**(165,834)**	**5,911**	**7,423**	**567,448**	**(15,709)**	**399,239**

Regular budget general fund

14.1 The negative regular budget general fund balance is as a consequence of unfunded long-term employee benefits liabilities amounting to €258,160 as at 31 December 2016 (2015: €217,521).

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 2016 (restated)*	*Movements during the year*	*Net surplus/ (deficit) for the year*	*31 December 2016*
		(thousands of euros)			
Computer Model for Feasibility Analysis and Reporting fund	14.5	647	-	(326)	**321**
Operational budget	14.6	(9,771)	(8,967)	(54)	**(18,792)**
Fund for the Programme for Change and Organizational Renewal	14.7	2,794	(667)	(959)	**1,168**
Special Account of Voluntary Contributions for Core Activities	14.8	-	-	-	**-**
Major Capital Investment Fund	14.9	-	667	143	**810**

	Note	1 January 2016 (restated)	Movements during the year	Net surplus/ (deficit) for the year	31 December 2016
		(thousands of euros)			
Regular budget supplementary appropriation: Vienna International Centre security	14.10	575	-	-	**575**
Sales publication revolving fund	14.11	214	-	(5)	**209**
Total		**(5,541)**	**(8,967)**	**(1,201)**	**(15,709)**

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

14.9 With the same decision, the Board also took note of the establishment of the Major Capital Investment Fund (MCIF), . The MCIF provides a funding mechanism to secure funding for major capital investments or replacements in such a way that major expenditures of a one-off or infrequent nature will not cause significant distortion to the levels of the regular budgets. With decision IDB.33/Dec.8, paragraph (c), the Board encouraged Member States and donors to increase their voluntary contributions to UNIDO, including for the SAVCCA and MCIF.

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

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

Note 15. Reserves

	Note	1 January 2016	Movement during the year	31 December 2016
		(thousands of euros)		
Project personnel separation reserve	15.1	1,711	69	1,780
Insurance of project equipment		75	-	75
Statutory operating reserve	15.2/3	3,449	-	3,449
Separation indemnity reserve	15.4	5,499	-	5,499
Appendix D: reserve for compensation payments	15.5	3,223	133	3,356
Reserve for exchange rate fluctuations	15.6	2,997	(1,842)	1,155
Total		**16,954**	**(1,640)**	**15,314**

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 was reduced to $4,300 (€4,829), 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. The purpose of the reserve is primarily to protect against unforeseen shortfalls in technical cooperation delivery and the related support cost income, for inflation and currency adjustments and to liquidate legal obligations in the case of abrupt termination of operating budget activities.

15.3 The Industrial Development Board, in decision IDB.2/Dec.7, authorized the freezing of the operational reserve of the Industrial Development Fund at $550 (€419). The purpose of the reserve is to ensure the financial liquidity of the Fund and to compensate for uneven cash flows.

Separation indemnity reserve

15.4 Pursuant to decision GC.6/Dec.15, paragraph (e), the amount of $9,547, representing the balance of appropriations for the biennium 1992-1993, which was actually received by the Organization, was transferred to a separation indemnity reserve in 1995. Pursuant to General Conference decision GC.7/Dec.17, the amount of $13,900 was transferred from the unencumbered balance of appropriations for the biennium 1994-1995 for the funding of the separation indemnity reserve to meet the cost of staff separations resulting from the 1998-1999 programme and budgets. Unlike the previous allocation from the biennium 1992-1993, the allocation from the biennium 1994-1995 was not supported by actual cash, as large arrears existed for that biennium. The cumulative payments made during the period 1995 to 2001 from both reserves amounts to $18,546. The remaining balance of $4,900 was converted to euros on 1 January 2002 using the exchange rate approved by the General Conference (GC.9/Dec.15). Accordingly, the balances attributable to the above two decisions are €1,110 and €4,389, respectively.

Reserve for compensation payments

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

Reserve for exchange rate fluctuations

15.6 The General Conference in decision GC.8/Dec.16 authorized the Director General to establish a reserve, not subject to the provisions of financial regulations 4.2 (b) and 4.2 (c). Consequently, the reserve was established in the biennium 2002-2003 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 (from)/to the reserve 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 2016*	*31 December 2015 (restated)*
		(thousands of euros)	
Assessed contributions	**16.1**	**68,234**	**71,200**
Voluntary contributions			
For technical cooperation		217,723	228,609
For support to regular activities		153	170
Subtotal, voluntary contributions	**16.2**	**217,876**	**228,779**
Investment revenue	**16.3**	**551**	**18**
Revenue producing activities			
Sales publications		98	94
Computer Model for Feasibility Analysis and Reporting		109	243
Other sales		175	243
Subtotal, revenue producing activities	**16.4**	**382**	**580**
Miscellaneous income			
Transfer from/(to) reserve for exchange fluctuation	**16.5**	1,842	2,033
Release of performance obligation for the Vienna International Centre	**16.6**	2,025	1,955
Contribution in kind — Vienna International Centre land	**16.7**	223	222
Other	**16.8**	136	100
Subtotal, miscellaneous income		**4,226**	**4,310**
TOTAL REVENUE		**291,269**	**304,887**

16.1 The General Conference approved an amount of €136,417 for the regular budget for the biennium 2016-2017 (decision GC.16/Dec.15), which is financed from assessed contributions by Member States. Accordingly, €68,234, representing one-half of the biennial amounts assessed, adjusted by the amounts due from rescinding Member States of €26 (2015: €672). 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 decrease in 2016 is mainly attributable to the decreased 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 amount transferred from the reserve for exchange rate fluctuations is the necessary compensation for a euro deficit on actual dollar spending against the budgeted rate (see paragraph 15.6).

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

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

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

Contributions in kind for projects and field office operations

16.9 Contributions of services in kind estimated at €2,054 (2015: €2,136) 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 such contributions on the face of the financial statements. Details of in-kind contributions of services received are as follows:

	31 December 2016	*31 December 2015*
	(thousands of euros)	
Contributions of services in kind for the use of:		
Office space	785	865
Furniture and fixtures	11	8
Communications and information technology equipment	32	7
Vehicles	76	44
Machinery, tools	765	595
Utilities	16	28
Other goods/services	45	8
Contribution to conferences, workshops and training	98	191
Personnel services	108	149
United Nations Development Programme administered Junior Professional Officers	118	241
Total	**2,054**	**2,136**

Note 17. Expenses

	Note	*31 December 2016*	*31 December 2015*
		(thousands of euros)	
Staff salaries		36,769	39,521
Staff entitlements and allowances		30,143	34,114
Temporary assistance		2,376	1,411
Project personnel and consultancies		51,752	51,247
Subtotal, salaries and employee benefits	**17.1**	**121,040**	**126,293**
Regular travel		1,328	1,540
Project travel		7,529	7,693
Rental, utilities and maintenance		3,946	4,136
Inventory consumed/distributed		134	461
Information technology, communications and automation		3,170	3,571
Supplies and consumables		1,924	1,528
Other operating costs		6,598	7,091
Project operating costs		945	661
Subtotal, operating costs	**17.2**	**25,574**	**26,681**
Project contractual services	**17.3**	62,947	55,785
Equipment expensed	**17.4**	5,817	6,165
Depreciation and amortization	**7,8**	8,206	7,646
Other expenses	**17.5**	1,566	574
TOTAL EXPENDITURE		**225,150**	**223,144**
Currency translation differences	**17.6**	(4,702)	(33,272)

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.

17.4 The expenses for equipment represent machinery and equipment below the capitalization threshold, together with technical cooperation equipment handed over to the beneficiaries, or over which UNIDO has no control.

17.5 Other expenses include bank charges of €125 (2015: €137).

17.6 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 0.914 in 2015 to 0.956 in 2016.

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 2016 is presented below:

	Operating	*Investing*	*Financing*	*Total*
	(thousands of euros)			
Balance of appropriations (statement 5)	8,640	-	-	**8,640**
Basis differences	3,115	(961)	-	**2,154**
Presentation differences	111	-	-	**111**
Entity differences	56,214	(10,374)	-	**45,840**
Actual amount in the statement of cash flow (statement 4)	**68,080**	**(11,335)**	-	**56,745**

18.7 Budget amounts have been classified based on the nature of expenses in accordance with the programme and budgets approved for the biennium 2016-2017 by the General Conference at its sixteenth session (GC.16/Dec.15) 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 budgeted staff costs for Professional and General Service positions were under-utilized by approximately 7 per cent. The uncertainty in the receipt of assessed contributions by Member States required the Organization to maintain a higher than budgeted vacancy factor throughout the year. Various temporary Professional positions had to be created to accommodate Field staff during the transitional phase of restructuring the Field Representation, resulting in a budget overspend in this category of €0.8 million. Prudent spending in this largest component of the regular budget also resulted in an underutilization of the consultancy budget of €0.49 million and an underutilization of the budget for expert group meetings of €0.17 million.

Official travel

18.10 The budget for official travel was underutilized by €0.44 million, for both travel on official business and international travel of UNIDO representatives. 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 €2.60 million were mainly the result of reduced requirements for UNOV Security and Safety services of €0.27 million and a reduction in UNIDO’s contribution to the common Buildings Management Service of €0.26 million. The former 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 €1.01 million. Lastly, the operating costs for the field office network were underutilized by €0.33 million, mainly due to attempts aimed at cautious spending and savings in general field operational costs. The underutilization of €0.60 million in the contribution to Joint activity with the United Nations has been nearly offset by the unfunded requirement of the United Nations Resident Coordinator (UNRC), where the expenditures amounted to €0.68 million.

Information and communications technology

18.12 The underutilization of €1.30 million in resources for information and communications technology is mainly attributable to reduced usage of the budget lines for IT assets by €0.42 million, IT contractors by €0.39 million and communications service charges by €0.44 million, as UNIDO is making every concerted effort at technological efficiency and seeking other ways to successfully negotiate a new arrangement with its service providers.

Regular programme of technical cooperation and Special Resources for Africa

18.13 Resources for the regular programme of technical cooperation were administered under the special account created for that purpose to which the full appropriation had been transferred. A marginal underutilization of €0.07 million was recognized under Special Resources for Africa.

Note 19. Segment reporting

A: Statement of financial position by segment as at 31 December 2016

	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	36,933	408,488	61,790	-	**507,211**
Accounts receivable (non-exchange transactions)	11,299	146,224	1,123	-	**158,646**
Receivables from exchange transactions	-	436	1,717	-	**2,153**
Inventories	-	-	942	-	**942**
Other current assets	5,013	21,063	479	(3,245)	**23,310**
Subtotal, current assets	**53,245**	**576,211**	**66,051**	**(3,245)**	**692,262**
Non-current assets					
Receivables	35	70,567	-	-	**70,602**
Property, plant and equipment	38,771	21,680	1,399	-	**61,850**
Intangible assets	90	117	1,269	-	**1,476**
Other non-current assets	4,145	2	-	-	**4,147**
Subtotal, non-current assets	**43,041**	**92,366**	**2,668**	**-**	**138,075**
TOTAL ASSETS	**96,286**	**668,577**	**68,719**	**(3,245)**	**830,337**

	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)	595	540	1,420	-	**2,555**
Employee benefits	1,612	552	740	-	**2,904**
Transfers payable (non-exchange transactions)	6,305	6,943	11,754	(3,245)	**21,757**
Advance receipts	5,658	63,415	5,321	-	**74,394**
Other current liabilities	4,078	13,306	1,480	-	**18,864**
Subtotal, current liabilities	**18,248**	**84,756**	**20,715**	**(3,245)**	**120,474**
Non-current liabilities					
Employee benefits	192,785	4,733	60,642	-	**258,160**
Other non-current liabilities	37,055	93	2	-	**37,150**
Subtotal, non-current liabilities	**229,840**	**4,826**	**60,644**	**-**	**295,310**
TOTAL LIABILITIES	**248,088**	**89,582**	**81,359**	**(3,245)**	**415,784**
NET ASSETS/EQUITY					
Accumulated surpluses/(deficits): fund balances	(157,679)	500,567	(14,470)	-	**328,418**
Current period surplus/(deficit)	(736)	72,757	(1,200)	-	**70,821**
Reserves	6,613	5,671	3,030	-	**15,314**
TOTAL NET ASSETS/EQUITY	**(151,802)**	**578,995**	**(12,640)**	**-**	**414,553**
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**96,286**	**668,577**	**68,719**	**(3,245)**	**830,337**

B: Statement of financial performance by segment for the year ended 31 December 2016

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
	(thousands of euros)				
INCOME/REVENUE					
Assessed contributions	68,234	-	-	-	**68,234**
Voluntary contributions	153	217,552	172	-	**217,877**
Investment revenue	16	527	8	-	**551**
Revenue producing activities	164	12	17,061	(16,855)	**382**
Other	4,684	4,031	(14)	(4,476)	**4,225**
TOTAL REVENUE	**73,251**	**222,122**	**17,227**	**(21,331)**	**291,269**
EXPENDITURE					
Salaries and employee benefits	49,187	55,192	16,661	-	**121,040**
Operational costs	12,225	12,578	771	-	**25,574**
Contractual services	1,688	61,062	197	-	**62,947**
Technical cooperation equipment expensed	(22)	5,839	-	-	**5,817**
Depreciation and amortization	2,675	4,571	960	-	**8,206**
Other expenses	4,618	18,161	118	(21,331)	**1,566**
TOTAL EXPENDITURE	**70,371**	**157,403**	**18,707**	**(21,331)**	**225,150**
Currency translation differences	3,616	(8,038)	(280)	-	**(4,702)**
SURPLUS/(DEFICIT) FOR PERIOD	**(736)**	**72,757**	**(1,200)**	**-**	**70,821**

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 2016, activities have created inter-segment balances in the amount of €4,031, €445 and €16,855 (2015: €4,383, €3,070 and €17,591) 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 €1,502 (2015: €1,476). 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 2016	407	1	-	408
31 December 2015	402	3	-	405

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 2016	*31 December 2015*
	(thousands of euros)	
Regular budget	1,341	2,531
Trust fund	35,536	31,607
Montreal Protocol on Substances that Deplete the Ozone Layer	50,995	43,074
Global Environment Facility	77,345	62,027
Industrial Development Fund	13,444	11,906
Inter-organization arrangements	245	592
Regular programme of technical cooperation	1,635	2,500
Special services and other	218	321
Total commitments	**180,758**	**154,557**

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 €2,547 (2015: €2,467).

20.7 Contingent liabilities on pending cases under Appendix D of the Staff Rules for possible retroactive payment amounted to €154 (2015: €239) and additional recurring monthly payments of €22 (2015: €16).

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

21.1 No ex-gratia payments were made by UNIDO during 2016 and 2015.

21.2 The value of property, plant and equipment written off during the year due to loss/theft amounts to €65 (2015: €34).

Note 22. Related party and other executive management disclosure

Key management personnel

	No. of individuals	*Aggregate remuneration*	*Other compensations*	*Total remuneration 2016*	*Outstanding advances against entitlements 31 December 2016*
			(thousands of euros)		
Director General	1	383	107	490	-
Deputy to the Director General	1	204	-	204	-
Managing Directors	2	518	-	518	-

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

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

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

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

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

22.6 Advances made against entitlements of key management personnel in accordance with staff rules and regulations amounted to €0 as at 31 December 2016 (2015: €23).

Note 23. Opening balances adjustments

23.1 Opening balances were restated to include adjustments, which pertain to the de-recognition of the commissary and catering operations:

	Assets	*Equity*	*Income*
		(thousands of euros)	
De-recognition of investments in equity of Commissary joint venture	(1,058)	(835)	(223)
De-recognition of investments in equity of Catering service joint venture	(226)	(222)	(4)
Total	**(1,284)**	**(1,057)**	**(227)**

Note 24. Events after reporting date

24.1 The UNIDO reporting date is 31 December 2016. 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.