



Distr.
GENERAL

IDB.23/7
PBC.16/8
11 July 2000

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Twenty-third session
Vienna, 14-16 November 2000

Programme and Budget Committee

Sixteenth session
Vienna, 4-5 September 2000
Item 3 of the provisional agenda

REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1998-1999

Comments of the Director-General on the report of the External Auditor

CONTENTS

	<i>Paragraphs</i>	<i>Page</i>
Introduction.....	1	2
Chapter		
I. GENERAL COMMENTS.....	2 - 4	2
II. SPECIFIC COMMENTS	5 - 9	2
III. ACTION REQUIRED OF THE COMMITTEE	10	3

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

Introduction

1. The present document provides the Director-General's comments on the report of the External Auditor covering the period 1998-1999 (PBC.16/4-IDB.23/3).

I. GENERAL COMMENTS

2. The Director-General appreciates the report, which contains useful analyses, observations and recommendations. He also welcomes the new format, which facilitates reading. The Director-General acknowledges that the audit function is based on critical assessment, as implied in paragraph 4 of document IDB.23/3-PBC.16/4, and is grateful to the External Auditor and her team for their constructive efforts.

3. In general, the Director-General suggests that the report be considered against the background of the extremely difficult circumstances under which he had to manage the Organization during the reporting period, as well as the improvements achieved despite those difficulties. The report makes no mention of the implementation of the staff separation programme at the beginning of 1998, which was a particularly significant challenge. While the General Conference requested the Director-General to implement the staff reduction programme, Member States did not provide the requisite funds. The Director-General swiftly implemented the programme with disbursements of only \$10.9 million, or \$5.9 million less than the \$15.9 million originally estimated.

4. There were also numerous improvements in the administrative and financial management of the Organization, as acknowledged on several occasions by Member States, including the eighth session of the General Conference. Financial management and control, *inter alia*, notably improved during the reporting period. Despite delayed and unpredictable payment of assessed contributions, the financial situation of UNIDO has been stabilized. Similarly, as shown in paragraphs 5 to 7 below, Management Information Service (now Information Technology and Knowledge Management Section) was turned around during 1999, and there is a consensus that a new era has started for information technology in UNIDO.

II. SPECIFIC COMMENTS

Management Information System (paras. 78-80)¹

5. The Director-General does not share the conclusions of the audit report on MIS. As regards the year 2000 (Y2K) problems, it should be pointed out that

¹ Chapter titles refer to those in the report of the External Auditor (IDB.23/3-PBC.16/4).

UNIDO has many electronic data-processing systems on a partition of the IAEA mainframe computer, and accounting systems are only a part of those. An amount of \$750,000 was spent to make all UNIDO computer systems Y2K compliant, and not only the accounting systems. UNIDO systems on the IAEA mainframe are worth several million dollars. Considering that the transition of all systems to a modern client-server system is a multi-year, multi-million dollar project that entails considerable risks, an investment of \$750,000 to gain time was not a waste of resources. Moreover, the Y2K work enabled UNIDO to select the best solution to replace its entire computer systems in a calm, objective and professional manner.

6. Concerning the audit opinion that UNIDO should have acquired off-the-shelf programmes early in 1998, it must be pointed out that the Director-General at that time had to deal not only with MIS issues but also with many other pressing and critical transformation matters—including a major staff reduction exercise—within extremely limited financial and human resources. The large amount of funds required to modernize the archaic systems was simply not available in 1998. A further dimension results from the insufficient management attention to MIS in the past decade, with the consequence that the accumulated MIS-related problems were enormous. Solutions required a strategic, in-depth analysis, including a review of courses of actions taken by IAEA and other United Nations organizations (such as IMIS—the Integrated Management Information System of the United Nations). The Cross-Organizational Team on MIS (COT) was created in early 1998 precisely for those reasons.

7. The COT recommendations were issued in June 1998, and most had been implemented by early 2000 despite meager resources, tremendous time pressure and other priority requirements (such as the need to address Y2K issues). These accomplishments were possible because of strong management commitment and the dedication of MIS staff. A new era for UNIDO MIS has started at last, as illustrated by the installation of a modern IT network, new PCs, and particularly the introduction of the new financial systems based on a commercial package adopted by IAEA, with which organization regular contact is maintained. The Director-General is convinced that delaying the implementation of the new financial systems until early 2000 was the appropriate course of action.

Reconstruction of Gate 1 of the Vienna International Centre (paras. 81-88)

8. The costs for modification of Gate 1 were included in the relevant budget submissions for Buildings Management for the 1996-1997 biennium. By approving the UNIDO budgets (which included Gate 1) the Member States approved the budgetary provisions

related to the subject project. It is neither practical nor economical to include details of all projects and activities of the Organization in the programme and budget document.

9. Having said that, the Director-General recognizes that the manner in which the Gate 1 reconstruction was handled has been less than satisfactory. It should be noted that when he became aware of the situation in early 1998, work was in progress and the firm commitment that had been made to other VIC-based

organizations in 1997 prevented any reversal of the decision. In recognition of the problems, the Director-General has taken measures to prevent a recurrence of these incidents, including the system of decision-making pertaining to activities under joint and common VIC services.

III. ACTION REQUIRED OF THE COMMITTEE

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