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**Report of the External Auditor,
financial performance report and
programme performance report for
the biennium 2004-2005**

Programme and Budget Committee

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Item 3 of the provisional agenda
**Report of the External Auditor,
financial performance report and
programme performance report for
the biennium 2004-2005**

Financial performance report for the biennium 2004-2005

Submitted by the Director-General

Reports on the utilization of financial resources for the biennium 2004-2005 for the regular and operational budgets.

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Introduction

1. In its conclusion 1987/19, paragraph (j), the Programme and Budget Committee requested the Director-General to submit each year to the Industrial Development Board through the Committee a clear and detailed financial performance report itemizing the utilization of financial resources. The present document presents a comparison of the budget estimates in terms of appropriations and income with actual expenditures and income for the biennium 2004-2005. The information is provided for both the regular and operational budgets.

I. Regular budget

A. Budget estimates for the biennium

2. The budget estimates for the biennium 2004-2005 approved by the General Conference in decision GC.10/Dec.17 consisted of gross expenditure of €145,013,300, to be financed from assessed contributions in the amount of €142,000,000 and other income of €3,013,300. The originally approved €142,000,000 net regular budget appropriation was increased via a supplementary appropriation for security enhancements in the amount of €2,585,160 (decision GC.11/Dec.15) to the final level of €144,585,160.

3. The present document thus presents the financial performance report on the basis of the programme and budgets for 2004-2005, as contained in document IDB.27/3-PBC.19/3, approved in General Conference decision GC.10/Dec.17 and assessed on Member States, as well as the supplementary appropriation in accordance with decision GC.11/Dec.15.

4. The breakdown of the final budget estimates by major programme or object of expenditure exists only at the level of the original submission by the Director-General. Adjustments were reflected in decision GC.10/Dec.17, paragraph (b), to the gross expenditure budget, however, without establishing the programmatic location or object of expenditure of the reductions. The analysis in chapters E and F below will, therefore, have to refer to the unreduced gross expenditure figures.

B. Assessed contribution income for 2004-2005

5. The financial implementation of the approved programme and budgets is dependent on the actual level of cash resources available during the biennium. The source of financing of the regular budget is the assessed contributions of Member States. Assessed contributions for the biennium 2004-2005 paid to the Organization as compared with the amounts originally assessed in accordance with General Conference decision GC.10/Dec.17 are as follows:

Millions of euros

Assessed contributions receivable	142.0 ^a
Assessed contributions received	130.1
Shortfall in collections	11.9 (8.4%)

^a See document IDB.32/3-PBC.22/3, schedule 1, notes to the financial statements, note 3.1.

6. The supplementary appropriation for security enhancements was assessed on Member States only in 2006 and hence no collection was received during the reporting period.

C. Comparison of budget with actual expenditure and income for 2004-2005

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

	Regular budget			
	(Millions of euros)			
	Budget estimates	Actuals 2004-2005	Under-utilization	%
Expenditure	147.60	132.20	15.40	10.4
Income	3.01	(1.54) ^a	4.55	151.0
Net	144.59	133.74	10.85	7.5

^a The actual income of €4.37 million was reduced by the transfer of €5.91 million to the exchange reserve account (see paragraph 26).

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

D. Utilization of the budget

9. The net underutilization of the regular budget of €10.85 million (7.5 per cent) comprised an under-expenditure of €15.4 million (10.4 per cent) and a shortfall in income of €4.55 million (151 per cent). The single most important factor contributing to the underutilization was due to non- or late payment of assessed contributions. Savings resulted mostly from delayed recruitment of staff and also from reduction in expenditure levels under travel, operating expenses and other items mainly relating to joint and common services.

E. Financial implementation by major programme

10. Most major programmes were affected by the overall underutilization of the regular budget for the reasons described in paragraph 9 above.

11. Major Programme A (Governing Bodies) had an unutilized balance of €0.13 million out of the approved budget, mainly due to savings resulting from reduced cost of documentation and related production costs.

12. Major Programme B (General Management) had an unutilized balance of €0.35 million out of the approved budget estimate. Most of the savings occurred under operating costs, mostly related to document production (printing, translation, etc.).

13. Major Programme C (Strengthening of Industrial Capacities) had an unutilized balance of €3.71 million (12.7 per cent) of the originally approved budget. The most significant savings under this major programme occurred due to a high vacancy rate, resulting in an underexpenditure of €2.17 million under staff costs. Additional savings were achieved under consultancy and expert group meeting funds (€0.94 million, of which €0.24 million were used in Major Programme D), staff travel (€0.11 million) and operating costs (€0.49 million, of which €0.10 million were utilized in Major Programme D).

14. Major Programme D (Cleaner and Sustainable Industrial Development) had an unutilized balance of €0.41 million (1.8 per cent) of the originally approved budget. Staff cost savings in the amount of €0.72 million have been partially offset by increased expenditure under consultancy and expert group meetings

(€0.24 million) as well as operating costs (€0.10 million). There was also a saving under miscellaneous items in the amount of €0.03 million.

15. Major Programme E (Regional Programme) spent €9.6 million (27.4 per cent) less than budgeted. The most significantly underimplemented major programme was subject to a very high vacancy rate in terms of Professional-level posts in field offices, resulting in a saving of €7.05 million. While field positions have, in past bienniums, shown an above average vacancy rate, in the 2004-2005 biennium the situation did not show improvement in light of discussions on the Cooperation Agreement with UNDP and the anticipated impact on country coverage. The high number of vacant country offices as well as the favourable euro/dollar exchange rate also resulted in lower expenditure under operating costs (€1.92 million). There was a saving in travel costs to the extent of €0.54 million, as well as miscellaneous items in the amount of €0.09 million.

16. Major Programme F (Administration) was implemented with a reduced expenditure by €3.22 million (12.3 per cent). The main contributing factor was staff costs savings in the amount of €1.80 million, followed by underexpenditure in operating costs (€0.87 million), and IT and communications (€0.57 million), of which the latter was driven by lower communication service charges. Furthermore, there was an increased expenditure under miscellaneous items in the amount of €0.02 million.

17. Major Programme G (Buildings Management) generated savings amounting to some €1.69 million due to a higher vacancy rate and €0.15 million on account of consultant fees totalling to savings of €1.84 million under staff costs. Furthermore, Building Management Services (BMS) operating costs had savings amounting to €8.14 million. The BMS special account that was established in accordance with decision GC.9/Dec.14 had a closing balance of €15.58 million, out of which €7.28 million was still receivable. The accumulated funds on the BMS special account are fully programmed for the ongoing refurbishment activities in the VIC, including that of the present conference building C.

18. Major Programme H (Indirect Costs) recorded savings in the amount of €0.27 million (1.5 per cent). The savings were partly attributable to UNIDO's share of the reduced staff costs in BMS, as reported above, but also to reduced expenditures under the various joint and common services. A supplementary appropriation for security enhancements in the amount of €2.59 million was transferred to the special account created for the purpose through decision GC.11/Dec.15.

19. The reduced level of income to the extent of €0.9 million under Major Programme E (Regional Programme) reflected the lower-than-anticipated financial contributions of Governments to the costs of UNIDO field offices.

F. Financial implementation by major object of expenditure

20. The underutilization of budgeted staff costs of €12.5 million (12.7 per cent) comprises:

	<u>Millions of euros</u>
Salaries and common staff costs	12.0
Temporary posts (overutilized)	(0.6)
General temporary assistance (overutilized)	(0.4)
Expert group meetings	0.6
Staff training	0.7
Other	<u>0.2</u>
Total	<u>12.5</u>

21. As it is apparent from the above table, the underutilization of budgeted salary and common staff costs was mainly due to the higher-than-budgeted vacancy factors for Professional and General Service posts. Given that the largest component of the Organization's regular budget is staff costs, it was necessary to make the most significant savings under this item in order to compensate for the non- or late payment of assessed contributions.

22. Underutilization of funds for official travel of €0.7 million (25.2 per cent) resulted from a general curtailment of staff travel.

23. Savings in operating cost items in the amount of €3.9 million (13.5 per cent) were the result of reduced requirements for document production and field operating costs, as reported earlier under the different major programmes.

24. The underutilization of €0.6 million (11.2 per cent) for information and communication technology is due to the reduction in communication service charges.

25. Regular Programme of Technical Cooperation resources were administered under the special account created for the purpose to which the full appropriation has been transferred. A marginal underutilization of €0.01 million occurred under the Industrial Development Decade for Africa (IDDA) supplementary activities.

G. Income

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

	<u>Millions of euros</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Surplus/ (deficit)</u>
Government contributions to field operating costs	1.6	0.6	(1.0)
Miscellaneous income	<u>1.4</u>	<u>(2.2)</u>	<u>(3.6)</u>
Total	<u>3.0</u>	<u>(1.6)</u>	<u>(4.6)</u>

The deficit in cost reimbursement income of €1.0 million is directly related to the lower-than-anticipated contributions of Governments to the running costs of UNIDO field offices. Miscellaneous income as contained in the budget estimates approved in decision GC.10/Dec.17 of €1.4 million was fully achieved. However, currency exchange adjustments and other income items reduced the final income, as detailed in the following table:

Millions of euros

	<u>Budget</u>	<u>Actual</u>	Surplus/ <u>(deficit)</u>
Interest income on cash balances	1.4	1.3	(0.1)
Income from sale of publications	-	0.1	0.1
Currency exchange adjustment	-	(4.2)	(4.2)
Other income	=	<u>0.6</u>	<u>0.6</u>
Total miscellaneous income	<u>1.4</u>	<u>(2.2)</u>	<u>(3.6)</u>

Of the €4.2 million net currency exchange adjustment, €5.91 million represents the mandatory transfer to the exchange reserve account in line with the terms of GC.8/Dec.16, to protect the Organization from exchange rate fluctuations. This fund transfer was offset by exchange gains on general transactions.

II. Operational budget

27. The operational budget is funded mainly from support cost reimbursement income earned on technical cooperation project delivery and from technical services provided by the Organization. Expenditure estimates to be financed during the biennium from support cost income were presented in the programme and budget document (IDB.27/3-PBC.19/3) and approved by the General Conference in decision GC.10/Dec.17.

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

Millions of euros

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Technical cooperation delivery, excluding regular budget (RPTC), net of support cost	189.8 ^a	162.6 ^a	(27.2)
Income earned on delivery for technical services	21.5	17.7	(3.8)
Cost reimbursement from host Governments	0.2	-	(0.2)
Miscellaneous income	0.1	0.5	0.4
Total income	21.8	18.2	(3.6)
Expenditure	<u>21.8</u>	<u>16.8</u>	<u>(5.0)</u>
Excess of income over expenditure	-	1.4	1.4
Savings on cancellation of prior biennium obligations	=	<u>0.6</u>	<u>0.6</u>
Net excess of income over expenditure	=	<u>2.0</u>	<u>2.0</u>

^a In dollar terms, the amount budgeted was \$176.9 million and the actual delivery amounted to \$200.1 million.

29. A comparison of actual expenditure with the budget estimates, as contained in decision GC.10/Dec.17, is presented in tables 3 and 4 by major programme and major object of expenditure, respectively.

30. While actual technical cooperation delivery (excluding RPTC) and income did not reach the budgeted level in euros, expenditure control resulted in the restoration of the operating reserve to its desired level. Accordingly, the net operating reserve of €3.1 million brought forward from 2003 increased to €5.1 million as at 31 December 2005 by a surplus for the biennium 2004-2005 of

€2 million, after taking into account cancellation of prior biennium obligations and prior biennium adjustments.

III. Action required of the Committee

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

Table 1
Regular Budget
Financial performance report for 2004-2005 by major programme
(In thousands of euros)

<i>Major programme</i>	<i>Approved budget estimates 2004-2005^a (1)</i>	<i>Actual expenditure/income 01/01/04 to 31/12/05 (2)</i>	<i>Unutilized balance as at 31/12/05 (3)=(1)-(2)</i>	<i>Percentage (4)=(3)/(1)</i>
<i>Expenditure</i>				
A. Governing Bodies	5,299.5	5,170.8	128.7	2.4
B. General Management	12,114.8	11,766.0	348.8	2.9
C. Strengthening of Industrial Capacities	29,176.9	25,464.1	3,712.8	12.7
D. Cleaner and Sustainable Industrial Development	23,392.1	22,980.1	412.0	1.8
E. Regional Programme	35,097.1	25,495.0	9,602.1	27.4
F. Administration	26,227.9	23,009.6	3,218.3	12.3
G. Buildings Management (details below)			-	
H. Indirect Costs	18,586.0	18,313.5	272.5	1.5
Total expenditure	149,894.3	132,199.1	17,695.2	11.8
Less: Adjustment to gross expenditure ^b	(2,295.8)	-	(2,295.8)	
Total expenditure after adjustment	147,598.5	132,199.1	15,399.4	10.4
<i>Income</i>				
E. Regional Programme	1,618.5	632.3	986.2	60.9
G. Buildings Management (details below)				
Miscellaneous Income				
a. estimated in GC.10/Dec.17	1,394.8	1,400.5	(5.7)	
b. not estimated in GC.10/Dec.17		(3,569.8)	3,569.8	
(including currency exchange adjustments)				
Total income	3,013.3	(1,537.0)	4,550.3	151.0
TOTAL—NET	144,585.2	133,736.1	10,849.1	7.5
<i>G. Buildings Management</i>				
Expenditure	47,870.1	37,887.4	9,982.7	20.9
Income				
estimated	47,870.1	45,990.7	1,879.4	
not estimated (including currency exchange adjustments)		548.2	(548.2)	
Total Buildings Management		(8,651.5)	8,651.5^c	18.1

^a Approved in decisions GC.10/Dec.17 and GC.11/Dec.15.

^b Adjustment made to gross expenditure in the programme and budgets for 2004-2005 as per GC.10/Dec.17(b).

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

Table 2
Regular budget
Financial performance report for 2004-2005 by major object of expenditure
(In thousands of euros)

<i>Major object of expenditure</i>	<i>Approved budget estimates 2004-2005^a (1)</i>	<i>Actual expenditure/income 01/01/04 to 31/12/05 (2)</i>	<i>Unused balance as at 31/12/05 (3)=(1)-(2)</i>	<i>Percentage (4)=(3)/(1)</i>
<i>Expenditure</i>				
1. Staff costs	98,335.1	85,877.0	12,458.1	12.7
2. Official travel	2,793.4	2,089.6	703.8	25.2
3. Operating costs	28,921.3	25,030.2	3,891.1	13.5
4. Information and communication technology	5,654.7	5,019.9	634.8	11.2
5. RPTC and IDDA supplementary activities	14,189.8	14,182.4	7.4	0.1
Total expenditure	149,894.3	132,199.1	7,695.2	11.8
Less: Adjustment to gross expenditure^b	(2,295.8)	-	(2,295.8)	
Total expenditure after adjustment	147,598.5	132,199.1	15,399.4	10.4
<i>Income</i>				
a. Estimated in GC.10/Dec.17	3,013.3	2,032.8	980.5	
b. Not estimated in GC.10/Dec.17 (including currency exchange adjustments)		(3,569.8)	3,569.8	
Total income	3,013.3	(1,537.0)	4,550.3	151.0
TOTAL—NET	144,585.2	133,736.1	10,849.1	7.5

^a Approved in decisions GC.10/Dec.17 and GC.11/Dec.15.

^b Adjustment made to gross expenditure in the programme and budgets for 2004-2005 as per GC.10/Dec.17(b).

Table 3
Operational budget
Financial performance report for 2004-2005 by major programme
(In thousands of euros)

<i>Major programme</i>	<i>Approved budget estimates 2004-2005^a (1)</i>	<i>Actual expenditure/income 01/01/04 to 31/12/05 (2)</i>	<i>Variance (3)=(1)-(2)</i>
<i>Expenditure</i>			
B. General Management	119.1	395.7	(276.6)
C. Strengthening of Industrial Capacities	5,808.2	4,607.0	1,201.2
D. Cleaner and Sustainable Industrial Development	5,234.3	3,998.7	1,235.6
E. Regional Programme	5,961.9	4,187.9	1,774.0
F. Administration	4,703.3	3,636.3	1,067.0
Total expenditure	21,826.8	16,825.6	5,001.2
<i>Income</i>			
E. Regional Programme	187.5	-	187.5
Miscellaneous Income			
a. Estimated in GC.10/Dec.17	127.0	291.0	(164.0)
b. Not estimated in GC.10/Dec.17 (including currency exchange adjustments)		222.7	(222.7)
Total income	314.5	513.7	(199.2)
TOTAL—NET	21,512.3	16,311.9	5,200.4

^a Approved in decision GC.10/Dec.17.

Table 4
Operational budget
Financial performance report for 2004-2005 by major object of expenditure
(In thousands of euros)

<i>Major object of expenditure</i>	<i>Approved budget estimates 2004-2005^a (1)</i>	<i>Actual expenditure/income 01/01/04 to 31/12/05 (2)</i>	<i>Variance (3)=(1)-(2)</i>
<i>Expenditure</i>			
1. Staff costs	20,506.8	15,798.9	4,707.9
3. Operating costs	1,320.0	1,026.7	293.3
Total expenditure	21,826.8	16,825.6	5,001.2
<i>Income</i>			
a. Estimated in GC.10/Dec.17	314.5	291.0	23.5
b. Not estimated in GC.10/Dec.17 (including currency exchange adjustments)		222.7	(222.7)
Total income	314.5	513.7	(199.2)
TOTAL—NET	21,512.3	16,311.9	5,200.4

^a Approved in decision GC.10/Dec.17.