

The Agency's Financial Statements for 2011



IAEA

International Atomic Energy Agency

Atoms for Peace

THE
AGENCY'S FINANCIAL
STATEMENTS
FOR 2011

Printed by the
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July 2012

Report by the Board of Governors

1. In accordance with Financial Regulation 11.03(b) [1], the Board of Governors hereby transmits to the Members of the Agency the report of the External Auditor on the Agency's financial statements for 2011.
2. The Board has examined the report by the External Auditor and the report by the Director General on the financial statements, and also the financial statements themselves, and submits the following draft resolution for the consideration of the General Conference.

The General Conference.

Having regard to Financial Regulation 11.03(b),

Takes note of the report of the External Auditor on the Agency's financial statements for the year 2011 and of the report of the Board of Governors thereon [*].

[*] GC(56)/10

[1] INFCIRC/8/Rev.3

Fifty-sixth regular session

The Agency's Financial Statements For 2011

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REPORT OF THE DIRECTOR GENERAL ON THE AGENCY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Introduction

1. In accordance with Financial Regulation 11.03, I have the honour to submit the financial statements of the International Atomic Energy Agency (hereafter 'IAEA' or the Agency) for the year ended 31 December 2011.

2. For the first time, the financial statements of the Agency have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). Until 2010, the financial statements were prepared in accordance with the United Nations System Accounting Standards (UNSAS).

3. The Report of the External Auditor, together with his opinion on the financial statements, is also submitted in accordance with Financial Regulation 11.03.

4. The IAEA is a not-for-profit autonomous intergovernmental organization founded in 1957 in accordance with a decision of the General Assembly of the United Nations. It is part of the United Nations Common System and the relationship with the United Nations is regulated by the "Agreement Governing the Relationship Between the United Nations and the International Atomic Energy Agency" which came into force on 14 November 1957.

5. The Agency's statutory mandate sets out three core activities that underpin the Agency's programme:

- *Safeguards and Verification* – verifying that safeguarded nuclear material and activities are not used for military purposes.
- *Safety and Security* – helping countries to upgrade nuclear safety and security, and to prepare for and respond to emergencies.
- *Science and Technology* – helping countries mobilize peaceful applications of nuclear science and technology.

6. The Agency carries out its mandate within a results-based framework ensuring effectiveness, accountability and transparency. This framework must be supported by high quality financial reporting and management information. The more comprehensive financial statements prepared under IPSAS are a key enabler to allow the Agency to deliver its mandate in an improved manner.

The Move to IPSAS

Improved Financial Reporting and Management Information

7. On 30 November 2005, the High-Level Committee on Management (HLCM) recommended that all United Nations system organizations adopt IPSAS as their accounting standards. This recommendation was driven by a need within the UN system to move to improved, independent and universally accepted accounting standards, with the aim of increasing quality and credibility in financial reporting.

8. Following this, in June 2007, the Board of Governors approved the adoption of IPSAS by the Agency. The project to implement IPSAS has been complex and wide-ranging, with preparatory work commencing in 2007. Simultaneous implementation of Plateau 1 of the new enterprise resource planning (ERP), the Agency-wide Information System for Programme Support (AIPS) added to the complexity.

9. The adoption of IPSAS represents a best management practice and will result in keeping up-to-date with the latest developments in financial matters. It will also lead to greater harmonization in the presentation of financial statements between UN system organizations and better comparability of financial statements with other international organizations and national governments.

10. Financial statements prepared in accordance with IPSAS provide much more insight into the actual assets, liabilities, revenues and expenses of the Agency. Increased transparency with respect to assets and liabilities results in greater internal control and enhanced management of resources. IPSAS-provided information about revenues and expenses better supports decision-making and enhances strategic planning.

Summary of Changes to the Financial Statements

11. Applying IPSAS requires the introduction of the full accrual basis of accounting, a significant change from the modified cash basis of accounting applied under UNSAS. Accrual basis accounting means the recognition of transactions and events when they occur, recorded in the accounting records and reported in the financial statements of the financial periods to which they relate, and not only when cash or its equivalent is received or paid.

12. Under IPSAS, voluntary contribution arrangements are analyzed to see if the Agency needs to meet performance conditions. If no conditions are present, revenue is recognized at the time of signing of a legally binding agreement. If conditions are present, revenue is only recognized when those conditions are fulfilled. Where contributions are due to the Agency, a receivable balance is shown, but this is reduced to reflect an allowance for the amount which is considered unlikely to be received. Previously under UNSAS, revenue from voluntary contributions was simply recognized when cash was received. The Agency now also assesses the value of non-monetary contributions of goods-in-kind, to the extent possible, and includes this in revenue.

13. Expenses are now recognized in the financial statements only when services or goods have been received and accepted by the Agency, and not when commitments have been made.

14. The IAEA now reports the value of its investment in both tangible and intangible assets. Tangible fixed assets (referred to as property, plant and equipment) represent the buildings, non-expendable property and small attractive items of the Agency. Intangible assets represent property which does not have physical substance. For the Agency, this is essentially information technology software. Previously, all these assets were immediately recorded as expenditure on acquisition.

15. The value of future employee benefits that IAEA staff have earned but not yet received (for example, accumulated annual leave, repatriation grants, After Service Health Insurance) are now recorded on accrual basis to capture the full cost of employing staff. In the previous financial statements these types of benefits were shown as an expense only when paid, and the liabilities were only disclosed in the notes.

16. Under UNSAS, the principal financial statements (Statements I and II) were presented showing the split by fund. Under IPSAS, only the total consolidated position is shown on the

face of the Financial Statements I and II, with the split by fund included in the Financial Statement VII. The consolidated financial statements include the appropriate share of all entities and funds which are deemed, according to the IPSAS definition, to be jointly controlled by IAEA and other organizations.

17. The implementation of IPSAS currently has no impact on the preparation of the budget, which is still presented on a modified cash basis. As this basis differs from the accrual basis applied to the financial statements, reconciliation between the budget and the cash flow statement is provided in accordance with the requirements of IPSAS.

Financial Performance

18. The Agency's total revenue for 2011 was €554.4 million compared to total expenses of €404.2 million. After taking into account the Agency's share of surplus in common service entities (Commissary and Catering) of €0.5 million, there was a net surplus of €150.7 million for 2011, primarily in Extrabudgetary Programme Fund (EBF).

19. As permitted by IPSAS, in the first year of IPSAS adoption, comparative information for the prior period has not been provided in the Statement of Financial Performance. The Financial Statement VIIb provides detail of financial performance by fund, and this is summarized below:

Table 1: Summary Financial Performance by Fund for the period ended 31 December 2011

	(expressed in millions of euros)						
	RB & WCF	TCF	EBF	TC-EB	TF/RF/SF	Inter-fund Elimination	TOTAL IAEA
Total Revenue	315.8	59.7	169.4	13.1	0.3	(3.9)	554.4
Total Expenses	308.8	46.3	41.5	11.0	0.5	(3.9)	404.2
Surplus/(Deficit) from operations for the year	7.0	13.4	127.9	2.1	(0.2)	-	150.2
Share of surplus in common service entities	0.5	-	-	-	-	-	0.5
Net Surplus/(Deficit) for the year	7.5	13.4	127.9	2.1	(0.2)	-	150.7

20. The introduction of IPSAS has fundamentally changed the way revenue is recognized for extrabudgetary contributions, so that revenue is recognized before cash is received. The EBF recorded a surplus of €127.9 million for the year, primarily due to revenue recognized during the year related to the IAEA Low Enriched Uranium Bank (LEU), against which the expenses will be incurred in future periods.

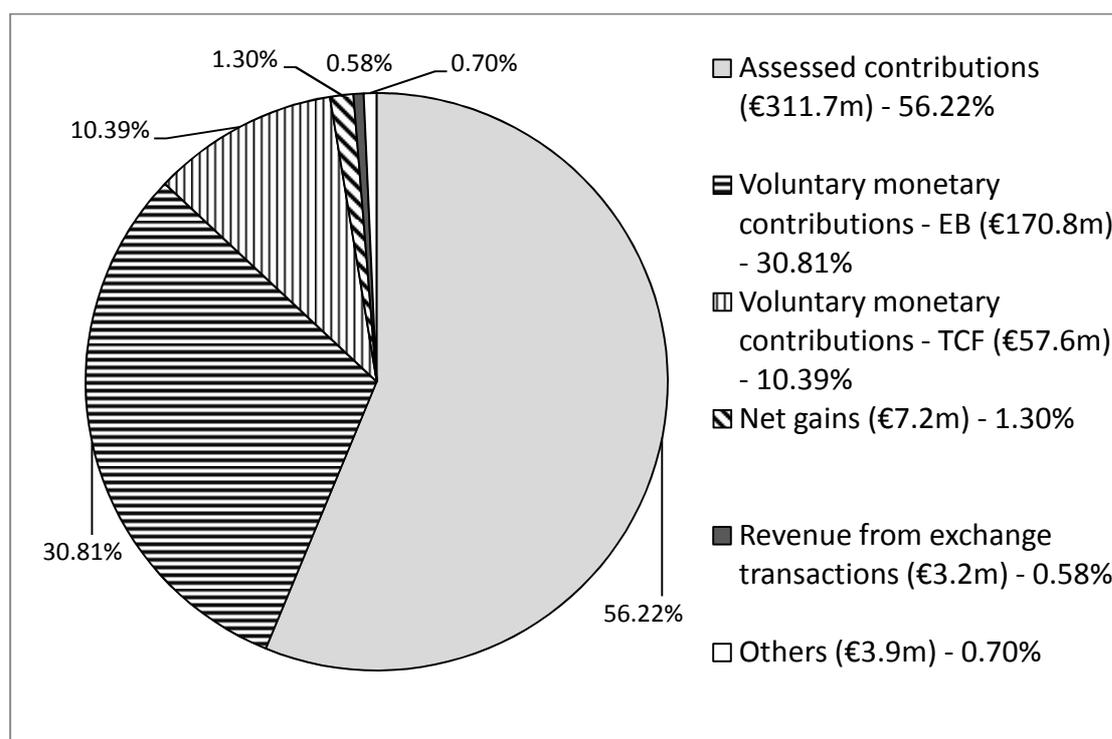
21. The Technical Cooperation Fund (TCF) and the Regular Budget Fund recorded surpluses of €13.4 million and €7.5 million respectively for the year.

22. The minor deficit under the Trust Funds / Reserve Funds / Special Funds (TF/RF/SF) is mainly due to the timing difference between recognizing revenue and expense. This is funded through surplus from previous years.

Revenue Analysis

23. IAEA's programme activities are financed mainly from two sources – the regular budget assessed contributions and voluntary funding. Assessed contributions at €311.7 million remain the primary source of revenue for the Agency, representing approximately 56% of the total revenue for 2011.

Figure 1: Revenue Sources



24. Revenue recognized from voluntary contributions totaled €230.3 million for the year, representing 42% of total revenue. Out of this, voluntary monetary contributions for TCF were €57.6 million, while other extrabudgetary monetary contributions amounted to €170.8 million.

25. One of the major activities at the Agency during the year was the establishment of the IAEA LEU Bank, which is funded exclusively through extrabudgetary contributions. The Board of Governors approved its establishment in December 2010 (GOV/2010/70). Its purpose is to serve as a mechanism of last resort to back up the commercial market without distorting the market, in the event that a Member State's supply of low enriched uranium is disrupted and cannot be restored by commercial means. Revenue generated under IAEA LEU Bank is shown under extrabudgetary voluntary contributions, and amounted to the equivalent of €81.2 million. It is anticipated that this amount will be utilized in future periods.

26. Significant contributions were received subject to conditions (€25.7 million). These balances are therefore not part of revenue for 2011, but appear in the Statement of Financial

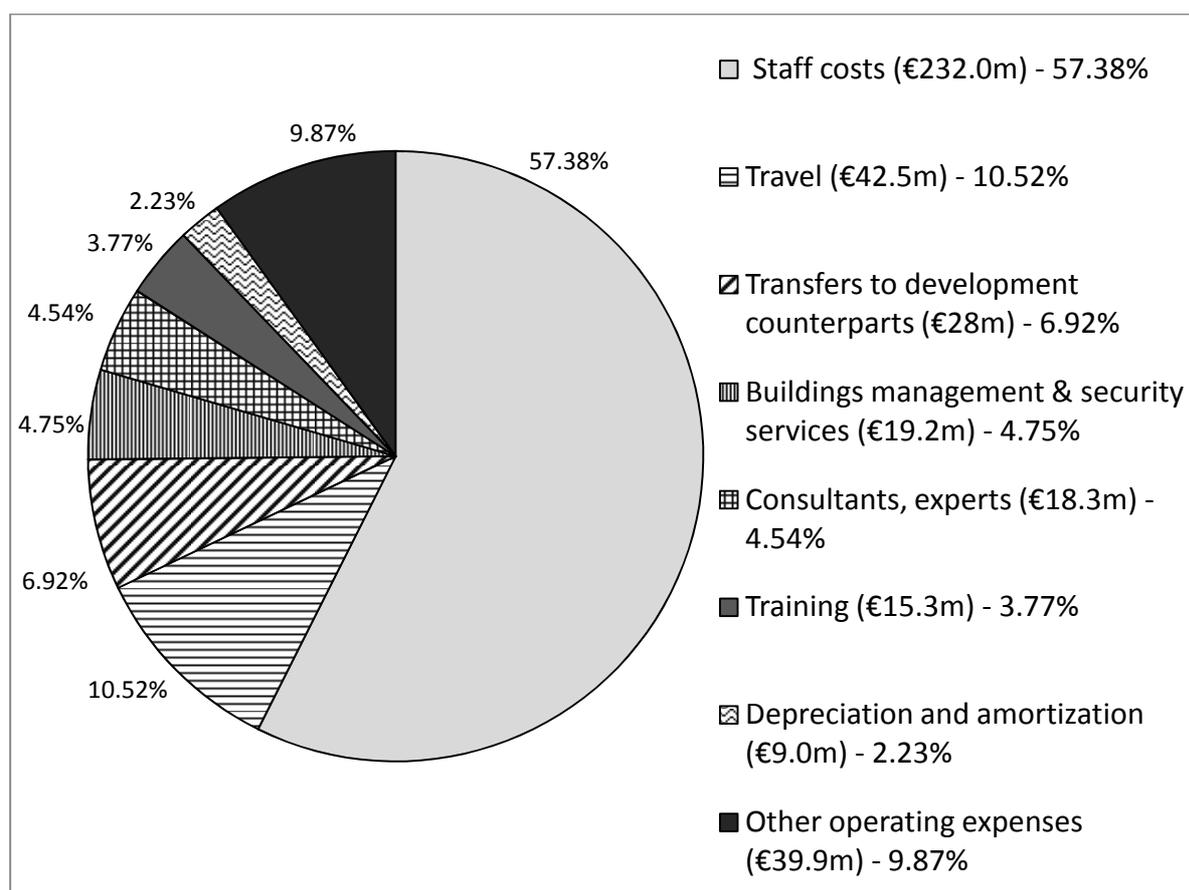
Position under deferred revenue, and will be recognized as revenue in future periods as conditions are fulfilled.

27. Voluntary contributions also include €1.9 million of in-kind contributions, primarily pertaining to the free use of premises in Austria and Monaco. These are recognized as an important element allowing the Agency to carry out its activities. In these cases, the contribution value is based on the rental market rate in those locations, and a corresponding rental expense is also recognized.

Expense Analysis

28. Staff costs of €232.0 million represent 57% of total expenses of €404.2 million for 2011. As already highlighted, accrual accounting for post-employment and other long-term employee benefits requires the cost of the schemes to be recorded as the benefits are earned by staff, rather than on a pay-as-you-go basis. The expense relating to the After Service Health Insurance (ASHI) defined benefit scheme totaled €10.3 million for 2011. This methodology allows the Agency to better account for the true cost of employing its staff on an annual basis.

Figure 2: Expense Analysis



29. During 2011, €28.0 million worth of equipment and other project assets were transferred to Member States, mostly under the TC Programme, but also directly within the technical divisions in the framework of specific assistance programmes.

30. Other operating expenses in the above chart include institutional contractual services (information technology, scientific and technical etc.) of €12.1 million representing expenses where the Agency has engaged third parties to perform work on its behalf. Also included in this amount are supplies and materials (€7.2 million), equipment and software maintenance (€4.7 million), and purchase of minor equipment and software not meeting the capitalization criteria (€4.2 million).

31. Analysing expenses on a fund group basis shows that expenses under the Regular Budget (RB) represent more than 76% of the total expenses.

Budgetary Performance

32. The Regular Budget of the Agency continues to be prepared on a modified cash basis, and is presented in the financial statements as statement V, Statement of Comparison of Budget and Actual Amounts. In order to facilitate a comparison between the budget and the financial statements prepared under IPSAS, reconciliation of the budget to the Cash Flow Statement is included in the notes to the financial statements.

33. The original Regular Budget appropriations for 2011 were approved for €331.5 million at an exchange rate of €1 = \$1. The final budget for 2011 was recalculated to €313.9 million, at the UN average rate of \$1.3893 to €1. Movements between the original and final budget by major programme are provided in the notes to the financial statements.

34. The Agency as a whole expended €300.1 million from the operational portion of 2011 regular budget appropriations for a resource utilization rate of 99.0%, with €2.9 million remaining unutilized. The capital portion expenditure of €7.1 million amounts to a utilization rate of 87.8%. The utilization rates by major programme are provided below:

Table 2: Budget Utilization Rates for 2011

Major Programme	Utilization Rates	
	Operational Portion	Capital Portion
MP1 - Nuclear Power, Fuel Cycle and Nuclear Science	99.4%	-
MP2 - Nuclear Techniques for Development and Environmental Protection	97.2%	19.2%
MP3 - Nuclear Safety and Security	100.0%	-
MP4 - Nuclear Verification	99.1%	95.1%
MP5 - Policy, Management and Administration	99.4%	98.2%
MP6 - Management of Technical Cooperation for Development	99.0%	-
Total Agency	99.0%	87.8%

35. The detailed budgetary performance for 2011 is provided in Note 36c of the Agency's financial statements.

Financial Position

36. The financial position of the Agency by fund as included in segment information can be summarized as follows:

Table 3: Summary Financial Position by Fund as at 31 December 2011

	(expressed in millions of euros)					
	RB & WCF	TCF	EBF	TC-EB	TF/RF/SF	TOTAL IAEA
Current Assets	115.3	64.5	246.2	39.3	3.6	468.9
Non-current Assets	72.2	-	14.2	-	0.2	86.6
Total Assets	187.5	64.5	260.4	39.3	3.8	555.5
Current Liabilities	45.6	4.2	12.1	2.2	-	64.1
Non-current Liabilities	159.9	-	24.7	3.0	-	187.6
Total Liabilities	205.5	4.2	36.8	5.2	-	251.7
NET ASSETS/EQUITY	(18.0)	60.3	223.6	34.1	3.8	303.8

37. The net current assets (current assets less current liabilities) of the Agency were €404.8 million as at 31 December 2011 (€240.9 million as at 1 January 2011). This is positive for all funds indicating positive short-term liquidity. The Agency's current assets amount to 84.4% of its total assets whereas the current liabilities constitute 25.5% of the total liabilities.

38. The current liabilities of the Agency decreased during the year as extrabudgetary contributions received last year for the setting up of the IAEA LEU Bank were formally accepted by the Agency in 2011. These advance contributions were classified under deferred revenue (current liability) in the IPSAS opening balances, and were recognized as revenue during 2011.

Net Assets/ Equity

39. The Agency's net assets/equity increased from €146.6 million as at 1 January 2011 (restated as per IPSAS) to €303.8 million as at 31 December 2011.

40. The negative net assets/equity position for the RB fund is primarily due to the significant staff post-employment benefits liabilities recognized for the first time in the financial statements.

41. The net assets/equity balance of the EBF showed a balance of €223.6 million, primarily due to contributions received or pledged for the IAEA LEU Bank and other extrabudgetary projects, against which expenses are expected to be incurred in future years.

42. The net assets/equity are divided into fund balances (€184.0 million) and reserves (€119.8 million).

43. Fund balances include individual funds with specific purposes amounting to €50.8 million. This includes the Working Capital Fund (€15.2 million) and the Major Capital Investment Fund

(€8.0 million) under the Regular Budget and Working Capital Fund and the Nuclear Security Fund (€25.3 million), which is part of the Extrabudgetary Programme Fund.

44. Reserves primarily include the Agency's committed funds for open contracts where the goods and services were not received by the Agency at the end of the year. These were recognized as liabilities and expenditure under UNSAS but are shown as future commitments under IPSAS, to be converted into liabilities when the goods and services are delivered.

Cash, Cash Equivalents, and Investments

45. Cash, cash equivalents and investments together, amounting to €404.4 million, constituted 72.8% of the total assets of the Agency at 31 December 2011. 65.5% of the total cash, cash equivalents and investments balances pertained to extrabudgetary funds, and are therefore earmarked for specific projects.

46. Cash and cash equivalents balances increased by €105.0 million from €156.7 million at the start of the year to €261.7 million at the end of the year. This increase was mainly due to extrabudgetary contributions received during the year, pending their utilization for projects, that were primarily placed in term deposits with original maturities less than 3 months. This is in accordance with the prudent approach of the Agency of limiting exposure to commercial banks to very short-term periods.

47. Investments, primarily treasury bills and term deposits with maturities from three months to one year, increased by €9.8 million from €133.0 million at the start of the year to €142.8 million at the end of the year.

48. The year 2011 was characterized by historically low US dollar and euro interest rates. This, combined with the Agency's investment management objective of emphasizing capital preservation and liquidity over the rate of return, was the main driver of the low investment returns generated by the Agency during the year. Given the uncertain economic environment, the trend of low interest rates is expected to continue for the foreseeable future.

Contributions and Receivables

49. Revenue from assessed contributions for the current year Regular Budget amounted to €311.7 million. The rate of collection of assessed contributions for 2011 was 93.2%. Total gross assessed contributions receivable at 31 December 2011 were €21.2 million, a significant decrease of €16.1 million over the receivables balance at 31 December 2010, primarily due to payments received during 2011 from two Member States with significant outstanding amounts. In addition, a total of €0.1 million of advances to the Working Capital Fund remained outstanding in 2011. The Agency calculated an allowance of €4.6 million against all assessed contributions receivable as at 31 December 2011.

Figure 3: Assessed Contributions Collection Rate (%)

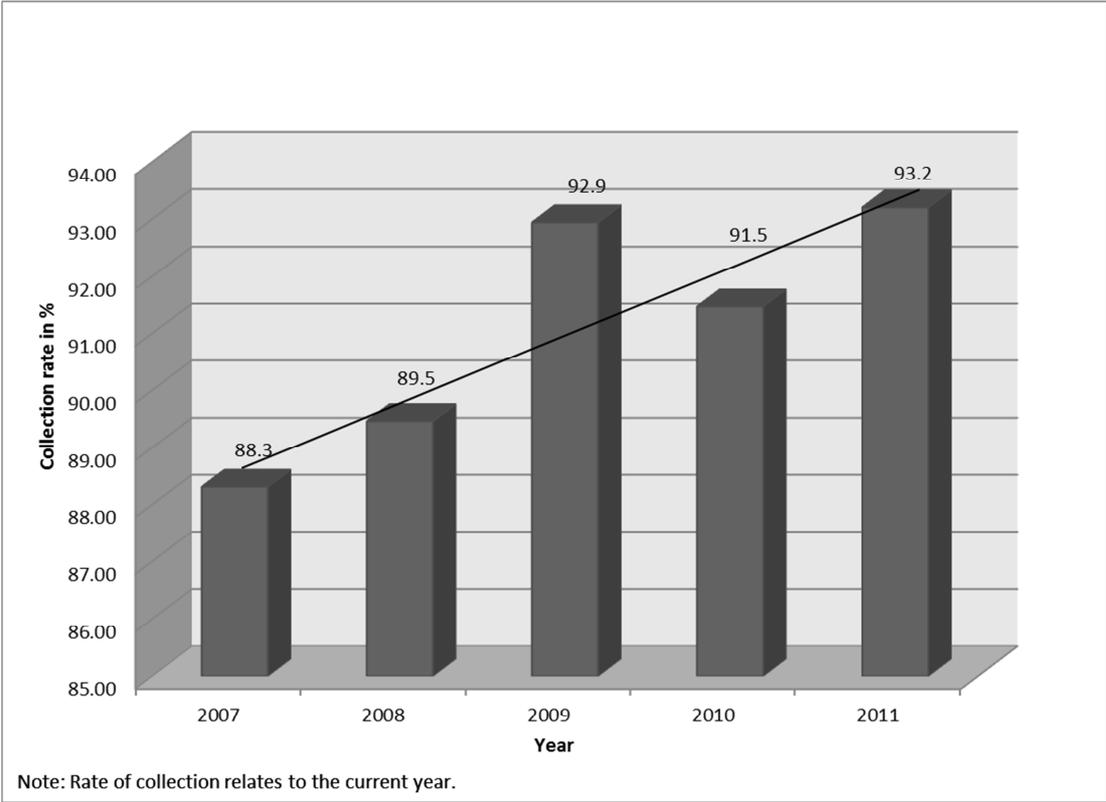
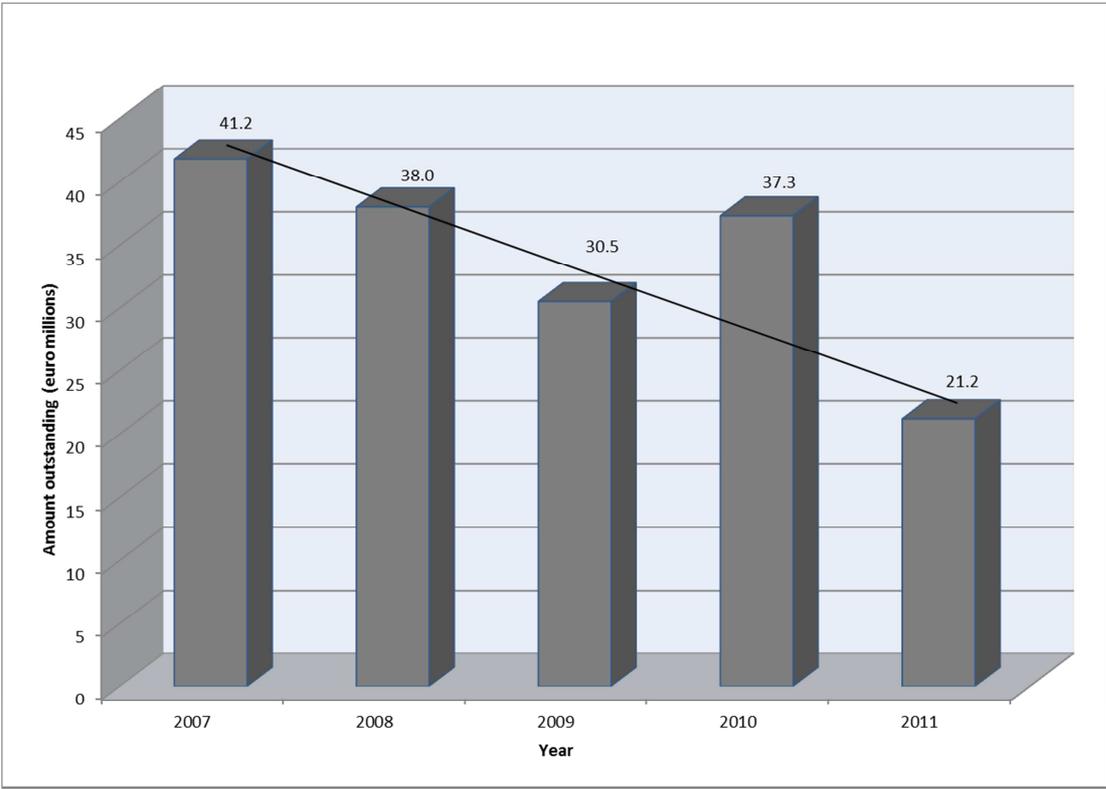


Figure 4: Gross Assessed Contributions Receivable (expressed in euro millions)



50. The Agency also received advance payments of €22.8 million related to 2012 assessed contributions.

51. TCF contributions receivable amounted to €3.9 million at 31 December 2011, and are primarily related to pledges that are outstanding for less than one year.

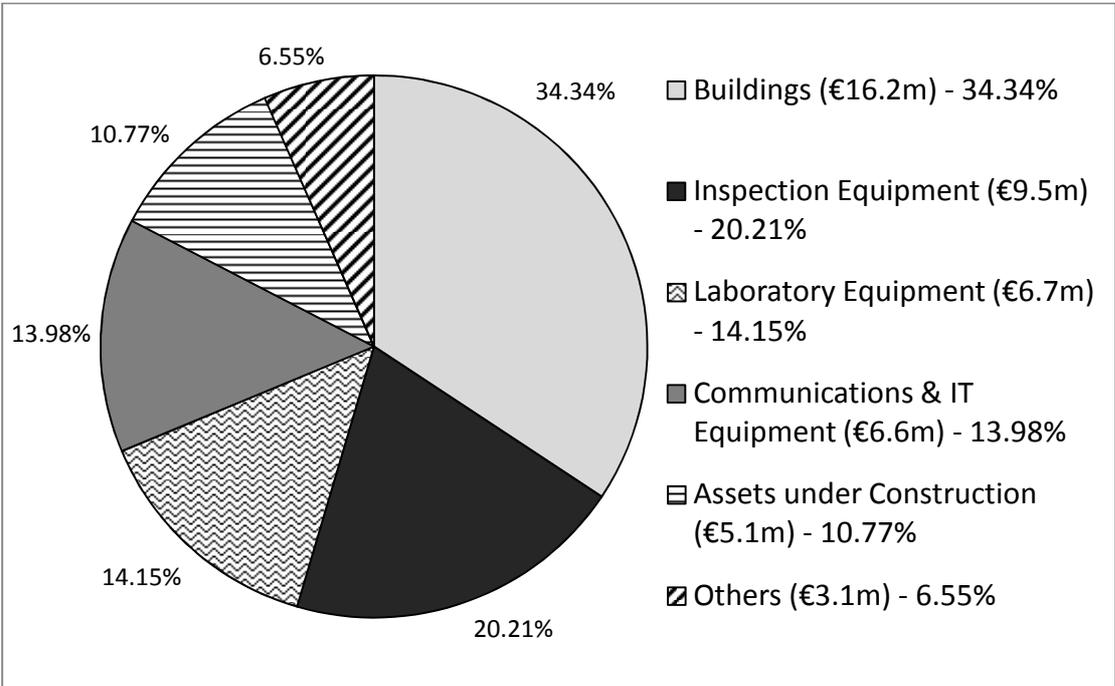
52. The receivables from extrabudgetary contributions at 31 December 2011 amounted to €18.1 million. This is due to pledges received for extrabudgetary contributions that were formally accepted in the last quarter of 2011 and for which funds have not been received by 31 December 2011.

Property, Plant & Equipment (PP&E)

53. The move to IPSAS meant that the Agency is now required to maintain detailed records of all PP&E which will allow more accurate stewardship of Agency resources. The total net carrying amount at 31 December 2011 amounted to €47.2 million representing 8.5% of total Agency assets. This is composed mainly of buildings with a net carrying amount of €16.2 million, Safeguards Inspection Equipment with a net carrying value of €9.5 million, Laboratory Equipment with a net carrying value of €6.7 million and Communications and IT Equipment with a net carrying value of €6.6 million.

54. The buildings include the buildings at Seibersdorf, Austria, and the Clean Laboratory Extension (CLE) which was commissioned in June 2011. The buildings at the Vienna International Centre are not part of these assets. These premises are leased for a nominal rent from the Government of Austria and are shared by other UN organizations. The Agency has taken transitional provisions under IPSAS 17 for these buildings. A detailed disclosure regarding this lease is provided in Note 12 of the Agency’s annual financial statements.

Figure 5: Detail of Property, Plant & Equipment



Employee Benefit Liabilities

55. The Agency has significant liabilities relating to post-employment and other long-term employee benefits, amounting to €175.1 million at the end of 2011, an increase of €6.9 million during the year. For the liabilities relating to After Service Health Insurance, repatriation benefits and accumulated annual leave, actuarial valuations have been used.

56. The funding of these long term contractual obligations with employees, both current and past, remains an issue for the Agency. The main liability, relating to After Service Health Insurance, amounted to €111.2 million as at 31 December 2011. This shows an increase of €5.2 million from the balance calculated at 31 December 2010, which is largely due to the current period service and interest cost, offset by actuarial gains and benefits paid during the year.

Cash Surplus

57. The cash surplus for 2010 amounted to €2.0 million, primarily due to the receipt in 2011 of prior years assessed contributions.

Risk Management

58. The financial statements prepared under IPSAS provide details of how the Agency manages its financial risk, including credit risk, market risk (foreign currency exchange and interest rate) and liquidity risk. From an overall perspective, the Agency's investment management prioritizes capital preservation as its primary objective, ensuring sufficient liquidity to meet cash operating requirements, and then earning a competitive rate of return on its portfolio within these constraints.

(signed)

YUKIYA AMANO
Director General

**STATEMENT OF THE DIRECTOR GENERAL'S RESPONSIBILITIES
AND
CONFIRMATION OF THE FINANCIAL STATEMENTS
WITH THE FINANCIAL REGULATIONS
OF THE INTERNATIONAL ATOMIC ENERGY AGENCY
AS AT 31 DECEMBER 2011**

The Director General's responsibilities

The Director General is required by the Financial Regulations to maintain such accounting records as are necessary in accordance with the accounting standards generally in use throughout the United Nations system and to prepare annual Financial Statements. He is also required to give such other financial information as the Board may require or as he may deem necessary or useful.

In line with the Financial Regulations the Agency has adopted the International Public Sector Accounting Standards (IPSAS) effective January 2011.

To lay the foundations for the financial statements, the Director General is responsible for establishing detailed Financial Rules and procedures to ensure effective financial administration, the exercise of economy, and the effective custody of the Agency's assets. The Director General is also required to maintain an internal financial control which shall provide an effective examination of financial transactions to ensure: the regularity of the receipt, custody and disposal of all funds and other financial resources of the Agency; and the conformity of expenditures with the appropriations approved by the General Conference, the decisions of the Board on the use of funds for the Technical Cooperation Programme or other authority governing expenditures from extrabudgetary resources; and the economic use of the resources of the Agency.

Confirmation of the Financial Statements with the Financial Regulations

We hereby confirm that the following appended financial statements, comprising Statements I to VIIb, and supporting Notes, were properly prepared in accordance with Article XI of the Financial Regulations, with due regard to the International Public Sector Accounting Standards.

(signed) YUKIYA AMANO
Director General

(signed) BETTINA TUCCI BARTSIOTAS
Director, Division of Budget and Finance

PART I

Letter from the External Auditor to the Chairperson of the Board of Governors

The Chairperson of the Board of Governors
International Atomic Energy Agency
A-1400 VIENNA
Austria

31 March 2012

Sir,

I have the honour to transmit the financial statements of the International Atomic Energy Agency for the year ended 31 December 2011 which were submitted to me by the Director General in accordance with Financial Regulation 11.03(a). I have audited these statements and have expressed my opinion thereon.

Further, in accordance with Financial Regulation 12.08, I have the honour to present my report on the Financial Statements of the Agency for the year ended 31 December 2011.

Accept Sir, the assurances of my highest consideration.

(signed) Prof. Dr. Dieter Engels
President of the Federal Court of Auditors,
Germany
External Auditor

AUDIT OPINION

CERTIFICATE OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE INTERNATIONAL ATOMIC ENERGY AGENCY FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

To the General Conference of the International Atomic Energy Agency

Report on the Financial Statements

I have audited the accompanying financial statements of the International Atomic Energy Agency, which comprise the statement of financial position, the statement of financial performance, the statement of changes in net assets/equity, the cash flow statement, the statements of comparison of budget and actual amounts and the statements of segment reporting as at 31 December 2011 (Statements 1 to 7b), for the financial period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in these circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing as adopted and expanded by the International Organization of Supreme Audit Institutions. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence for the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the International Atomic Energy Agency as of 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Report on Other Legal and Regulatory Requirements

Further, in my opinion, the transactions of the International Atomic Energy Agency that have come to my notice or which I have tested as part of my audit have, in all significant respects, been in accordance with the Financial Regulations and Rules.

In accordance with Article XII of the Financial Regulations, I have also issued a long-form Report on my audit of the International Atomic Energy Agency's financial statements containing additional information and comments on the financial statements and this opinion.

(signed)

Prof. Dr. Dieter Engels
President of the Federal Court of Auditors
Germany
External Auditor

Bonn, 31 March 2012

PART II

Financial Statements

Text of a Letter dated 22 March 2012 from the Director General to the External Auditor

Sir,

Pursuant to Financial Regulation 11.03(a), I have the honour to submit the financial statements of the International Atomic Energy Agency for the year ended 31 December 2011, which I hereby approve. The financial statements have been prepared and signed by the Director, Division of Budget and Finance, Department of Management.

Accept, Sir, the assurances of my highest consideration.

(signed) Yukiya Amano
Director General

STATEMENT I: STATEMENT OF FINANCIAL POSITION
As at 31 December 2011
(expressed in euro'000s)

	Note	31-12-2011	01-01-2011 (Restated)
Assets			
Current assets			
Cash and cash equivalents	5	261 662	156 710
Investments	6	142 754	133 029
Accounts receivable	7, 8	47 102	53 358
Advances and prepayments	9	11 862	14 218
Inventory	10	5 537	4 128
Total current assets		468 917	361 443
Non-current assets			
Accounts receivable	7, 8	695	992
Advances and prepayments	9	27 841	20 665
Investment in common services entities	11, 39	3 916	3 382
Property, plant & equipment	12	47 155	36 773
Intangible assets	13	6 964	-
Total non-current assets		86 571	61 812
Total assets		555 488	423 255
Liabilities			
Current liabilities			
Accounts payable	14	14 563	33 284
Deferred revenue	15	35 122	72 885
Employee benefit liabilities	16, 17	13 230	13 104
Other financial liabilities	18	994	1 226
Provisions	19	201	-
Total current liabilities		64 110	120 499
Non-current liabilities			
Deferred revenue	15	25 663	1 077
Employee benefit liabilities	16, 17	161 898	155 063
Total non-current liabilities		187 561	156 140
Total liabilities		251 671	276 639
Net Assets		303 817	146 616
Equity			
Fund balances	20, 21	184 021	54 556
Reserves	22	119 796	92 060
Total equity		303 817	146 616

The accompanying notes are an integral part of these statements.

(signed) BETTINA TUCCI BARTSIOTAS
 Director, Division of Budget and Finance

STATEMENT II: STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 31 December 2011
(expressed in euro'000s)

	Note	31-12-2011
Revenue		
Assessed contributions		311 728
Voluntary contributions	23	230 276
Other contributions	24	410
Revenue from exchange transactions	25	3 263
Interest revenue	26	1 564
Net gains	27	7 201
Total revenue		554 442
Expenses		
Staff costs	28	231 967
Consultants, experts		18 345
Travel	29	42 547
Transfers to development counterparts	30	27 995
Buildings management and security services	31	19 213
Training	32	15 255
Depreciation and amortization	12, 13	9 025
Other operating expenses	33	39 918
Total expenses		404 265
Share of surplus/ (deficit) in common services entities	34	534
Net surplus/(deficit)		150 711
<i>Expense analysis by major programme</i>	Statement	
Nuclear Power, Fuel Cycle & Nuclear Science	6	45 146
Nuclear Techniques for Development & Environmental Protection	6	63 710
Nuclear Safety & Security	6	67 634
Nuclear Verification	6	121 734
Policy, Management & Administration a/	6	107 302
Expenses not charged to/eliminations between major programmes	6	(1 261)
<i>Total expenses by major programme</i>		404 265

a/ Includes Management of Technical Cooperation for Development

The accompanying notes are an integral part of these statements.

(signed) BETTINA TUCCI BARTSIOTAS
Director, Division of Budget and Finance

STATEMENT III: STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011
(expressed in euro'000s)

	Note	31-12-2011
Equity at the beginning of the year		188 949
<i>IPSAS opening balance adjustments:</i>		
Initial recognition of employee benefit liabilities	4	(168 093)
De-recognition of unliquidated obligations	4	115 369
Reclassification of capital funds received for future use to liabilities	4	(42 321)
Initial recognition of property, plant and equipment	4	36 773
Accrual for goods and services delivered	4	(32 604)
Reclassification of certain liabilities to equity	4	20 064
Other IPSAS opening balance adjustments	4	28 479
<i>Total recognized changes in equity since last published financial statements</i>	4	(42 333)
Restated equity at the beginning of the year	20, 21, 22	146 616
Valuation gains/(losses) on investments	22	(16)
Actuarial gains/(losses) on employee benefit liabilities	22	6 513
Net revenue recognized directly in equity		6 497
Net surplus/(deficit) for the year	20	150 711
Credits to Member States		(7)
Equity at the end of the year	20, 21, 22	303 817

The accompanying notes are an integral part of these statements.

(signed) BETTINA TUCCI BARTSIOTAS
 Director, Division of Budget and Finance

STATEMENT IV: STATEMENT OF CASH FLOW
For the year ended 31 December 2011
(expressed in euro'000s)

	31-12-2011
Cash Flows from Operating Activities	
Net Surplus/(Deficit)	150 711
Depreciation and amortization	9 025
Discount amortization	(73)
Impairment	2
Actuarial gains/(losses) on employee benefit liabilities	6 513
Increase/(decrease) in doubtful debts allowance	517
(Gains)/losses on disposal of PPE and Intangibles	18
In-kind revenue	(445)
Share of deficit/(surplus) in common service entities	(534)
Foreign-exchange holding (gains)/losses on cash and cash equivalents	(5 301)
(Increase)/decrease in receivables	6 036
(Increase)/decrease in inventories	(1 409)
(Increase)/decrease in prepayments	(4 820)
Increase/(decrease) in contributions received in advance	(13 177)
Increase/(decrease) in accounts payable	(18 721)
Increase/(decrease) in employee benefit liabilities	6 961
Increase/(decrease) in other liabilities and provisions	(31)
Net Cash Flows from Operating Activities	135 272
Cash Flows From Investing Activities	
Purchase or construction of PPE and Intangibles	(25 960)
Sale of PPE and Intangibles	14
Investments	(9 668)
Net Cash Flows from Investing Activities	(35 614)
Cash Flows From Financing Activities	
Cash Surplus Payments	(7)
Net cash flows from financing activities	(7)
Net increase/(decrease) in cash and cash equivalents	99 651
Cash and cash equivalents at beginning of the period	156 710
Foreign-exchange holding gains/(losses) on cash and cash equivalents	5 301
Cash and cash equivalents at end of the period	261 662

The accompanying notes are an integral part of these statements.

(signed) BETTINA TUCCI BARTSIOTAS
Director, Division of Budget and Finance

**STATEMENT Va: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
(REGULAR BUDGET FUND OPERATIONAL PORTION) a/**

For the year ended 31 December 2011

(expressed in euro'000s)

	RB Current Year			RB Carryover		
	Operational Appropriations b/	Actuals (expenditure)	Variance c/	RB Carry Over d/	Actuals (expenditure)	Variance c/
MP1-Nuclear Power, Fuel Cycle and Nuclear Science	30 290	30 120	170	1 421	1 388	33
MP2-Nuclear Techniques for Development and Environment Protection	35 085	34 097	988	150	138	12
MP3-Nuclear Safety and Security	29 251	29 251	-	234	234	-
MP4-Nuclear Verification	115 892	114 786	1 106	4 412	2 094	2 318
MP5-Policy, Management and Administration Services	74 742	74 275	467	1 974	1 811	163
MP6-Management of Technical Cooperation for Development	17 773	17 595	178	415	367	48
Total Agency programmes	303 033	300 124	2 909	8 606	6 032	2 574
Reimbursable work for others	2 808	2 923	(115)	-	-	-
Total Regular Budget fund operational portion	305 841	303 047	2 794	8 606	6 032	2 574

Note a/: The accounting basis and the budget basis are different. This statement of Comparison of Budget and Actual amounts is prepared on the modified cash basis (further information provided in Note 36).

Note b/: General Conference Resolution GC(54)/RES/3 of September 2010 - revalued at the UN average rate of \$1.3893 to €1. Based on the decision of the Board of Governors on document (GOV/1999/15) an amount of €0.114 million was transferred to Major Programme 3 "Nuclear Safety and Security" in order to cover the cost of emergency assistance provided in Japan subsequent to the Fukushima Daiichi nuclear power accident. To recover this amount, year-end unencumbered balances in the operational portion of other 2011 Regular Budget Appropriation Sections were used.

Note c/: In accordance with the Agency's Programme and Budget document GC(53)/5, the unencumbered balances (variance) were transferred to the Reserve for Major Capital Investment Fund (MCIF) to support major capital investments.

Note d/: "RB carryover" represents the unobligated balances of appropriations carried over from 2010 into the second year of the program cycle, i.e. 2011 in the current biennium. Total carryover was €10.689 million, out of which €2.083 million has been transferred to the Reserve for MCIF in accordance with the General Conference Resolution GC(55)/5.

The accompanying notes are an integral part of these statements

(signed) BETTINA TUCCI BARTSIOTAS
Director, Division of Budget and Finance

**STATEMENT Vb: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
(REGULAR BUDGET FUND CAPITAL PORTION) a/**

For the year ended 31 December 2011
(expressed in euro'000s)

	RB Current Year		
	Capital Appropriations b/	Actuals (expenditure)	Variance c/
MP2-Nuclear Techniques for Development and Environmental Protection	919	176	743
MP4-Nuclear Verification	3 631	3 454	177
MP5-Policy, Management and Administration	3 517	3 452	65
Total Regular Budget capital portion	8 067	7 082	985

Note a/: The accounting basis and the budget basis are different. This statement of Comparison of Budget and Actual amounts is prepared on the modified cash basis (note 36).

Note b/: General Conference Resolution GC(54)/RES/3 of September 2010 - revalued at the UN average rate of \$1.3893 to €1.

Note c/: In accordance with the Agency's Programme and Budget document GC(53)/5, the unencumbered balances (variance) were transferred to the Reserve for MCIF to support major capital investments.

The accompanying notes are an integral part of these statements

(signed) BETTINA TUCCI BARTSIOTAS
Director, Division of Budget and Finance

STATEMENT VI: STATEMENT OF SEGMENT REPORTING BY MAJOR PROGRAMME
For the year ended 31 December 2011
(expressed in euro'000s)

	Nuclear Power, Fuel Cycle and Nuclear Science	Nuclear Techniques for Development and Environment Protection	Nuclear Safety & Security	Nuclear verification	Policy, Management and Administration a/	Expenses not charged to major programmes b/	Eliminations c/	Total
Expense								
Staff costs	20 949	21 061	30 208	86 718	61 782	11 249	-	231 967
Consultants, experts	4 495	4 301	5 502	829	2 345	873	-	18 345
Travel	8 679	8 867	13 078	7 659	4 146	118	-	42 547
Transfers to development counterparts	5 866	13 643	8 209	6	271	-	-	27 995
Buildings management and security services	10	1 502	71	1 488	16 104	38	-	19 213
Training	1 689	5 497	4 203	1 315	2 514	37	-	15 255
Depreciation and amortization	152	603	263	6 142	1 853	12	-	9 025
Other operating expenses	3 306	8 236	6 100	17 577	18 287	(9 692)	(3 896)	39 918
Total Expense	45 146	63 710	67 634	121 734	107 302	2 635	(3 896)	404 265
Assets								
Property, plant, equipment and intangibles	484	2 153	1 070	32 831	16 370	1 211	-	54 119
Asset additions								
Property, plant, equipment and intangibles	452	1 524	880	20 185	2 340	1 142	-	26 523

a/ Includes Management of Technical Cooperation for Development.

b/ Expenses not charged to major programmes primarily represent expenses related to reimbursable work for others that are not allocated to the major programmes. In addition, they include other expenses such as doubtful debt expenses that are not generally allocated to the major programmes.

c/ Major programme expenses are shown inclusive of programme support costs. Eliminations column includes elimination of programme support costs and other transactions occurring between major programmes to reconcile to total expenses in the statement of financial performance.

The accompanying notes are an integral part of these statements.

(signed) BETTINA TUCCI BARTSIOTAS
Director, Division of Budget and Finance

STATEMENT VIIa: STATEMENT OF SEGMENT REPORTING BY FUND - FINANCIAL POSITION
As at 31 December 2011
(expressed in euro '000s)

	Regular Budget Fund and Working Capital Fund	Technical Cooperation Fund		Extra Budgetary Programme Fund	Technical Cooperation Extrabudgetary Fund	Trust funds, Reserve Funds and Special Funds		Total
		Technical Cooperation Fund	Technical Cooperation Fund			Trust funds, Reserve Funds and Special Funds	Trust funds, Reserve Funds and Special Funds	
ASSETS								
Cash and cash equivalents	79 711	12 719	137 576	28 110	3 546	261 662		
Investments	-	43 600	91 414	7 740	-	142 754		
Accounts receivable	26 032	3 621	16 473	1 668	3	47 797		
Advances and prepayments	37 534	1 102	167	900	-	39 703		
Inventory	633	3 434	574	874	22	5 537		
Property, plant & equipment	32 867	3	14 185	-	100	47 155		
Intangible assets	6 811	-	56	-	97	6 964		
Investment in common services entities	3 916	-	-	-	-	3 916		
TOTAL ASSETS	187 504	64 479	260 445	39 292	3 768	555 488		
LIABILITIES								
Accounts payable	9 299	2 459	1 195	1 597	13	14 563		
Deferred revenue	22 829	1 694	32 650	3 612	-	60 785		
Employee benefit liabilities	172 607	13	2 508	-	-	175 128		
Other financial liabilities	579	6	407	2	-	994		
Provisions	201	-	-	-	-	201		
TOTAL LIABILITIES	205 515	4 172	36 760	5 211	13	251 671		
NET ASSETS	(18 011)	60 307	223 685	34 081	3 755	303 817		
EQUITY								
Fund balances	(81 371)	33 087	208 597	21 402	2 306	184 021		
Reserves	63 360	27 220	15 088	12 679	1 449	119 796		
TOTAL EQUITY	(18 011)	60 307	223 685	34 081	3 755	303 817		

The accompanying notes are an integral part of these statements

(signed) BETTINA TUCCI BARTSIOTAS
Director, Division of Budget and Finance

STATEMENT VIIIb: STATEMENT OF SEGMENT REPORTING BY FUND - FINANCIAL PERFORMANCE
For the year ended 31 December 2011
(expressed in euro'000s)

	Regular Budget Fund and Working Capital Fund	Technical Cooperation Fund	Extra Budgetary Programme Fund	Technical Cooperation Extrabudgetary Fund	Trust funds, Reserve Funds and Special Funds	Elimination	Total
REVENUE							
Assessed contributions	3 11 728	-	-	-	-	-	3 11 728
Voluntary monetary contributions	-	57 628	157 103	13 658	-	-	228 389
Voluntary in-kind contributions	1 442	-	445	-	-	-	1 887
Other contributions	245	165	-	-	-	-	410
Revenue from exchange transactions	3 249	14	-	-	-	-	3 263
Interest revenue	924	176	424	40	-	-	1 564
Internal revenue including programme support costs	715	-	2 907	-	274	(3 896)	-
Net gains/(losses)	(2 467)	1 738	8 485	(553)	(2)	-	7 201
TOTAL REVENUE	3 15 836	59 721	169 364	13 145	272	(3 896)	554 442
EXPENSES							
Staff costs	2 11 679	6	20 261	21	-	-	231 967
Consultants, experts	9 436	5 307	2 650	952	-	-	18 345
Travel	18 208	15 840	6 917	1 582	-	-	42 547
Transfers to development counterparts	5 890	11 678	3 548	6 719	160	-	27 995
Buildings management and security services	19 210	-	3	-	-	-	19 213
Training	2 158	9 895	2 318	884	-	-	15 255
Depreciation and amortization	8 060	-	916	-	49	-	9 025
Other operating expenses	34 157	3 622	4 869	906	260	(3 896)	39 918
TOTAL EXPENSES	308 798	46 348	41 482	11 064	469	(3 896)	404 265
Share of surplus/ (deficit) in common services entities	534	-	-	-	-	-	534
Net surplus/(deficit)	7 572	13 373	127 882	2 081	(197)	-	150 711

The accompanying notes are an integral part of these statements.

(signed) BETTINA TUCCI BARTSIOTAS
Director, Division of Budget and Finance

PART III

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NOTE 1: Reporting entity

1. The International Atomic Energy Agency ('IAEA' or 'the Agency') is a not-for-profit autonomous intergovernmental organization founded in 1957 in accordance with a decision of the General Assembly of the United Nations. The IAEA is a part of the United Nations Common System and the relationship with the United Nations is regulated by the 'Agreement Governing the Relationship Between the United Nations and the International Atomic Energy Agency' which came into force on 14 November 1957.
2. The Agency's statutory mandate sets out three core activities that underpin the Agency's strategy:
3. *Safeguards and Verification* – verifying that safeguarded nuclear material and activities are not used for military purposes.
4. *Safety and Security* – helping countries upgrade nuclear safety and security, and prepare for and respond to emergencies.
5. *Science and Technology* – helping countries mobilize peaceful applications of nuclear science and technology.
6. The statements on segment reporting by major programme and by fund provide further detail on how these core activities are managed and financed.

NOTE 2: Basis of preparation

7. These financial statements have been prepared on the accrual basis of accounting in accordance with the requirements of the International Public Sector Accounting Standards (IPSAS). Where IPSAS is silent concerning any specific matter, the appropriate International Financial Reporting Standard (IFRS) or International Accounting Standard (IAS) is applied.
8. This is the first set of financial statements prepared in compliance with IPSAS. The adoption of IPSAS has required changes to be made to the accounting policies followed by the Agency. The adoption of the new accounting policies has resulted in changes to the assets and liabilities recognized in the Statement of Financial Position. Accordingly, the last audited Statement of Financial Position, dated 31 December 2010, has been restated and the resulting changes are reported in the Statement of Changes in Equity and Note 4 First Implementation of IPSAS. The revised 31 December 2010 Statement of Financial Position is described in these financial statements as the 1 January 2011 Opening Balance (Restated). As permitted in respect of financial statements to which accrual accounting is first adopted in accordance with IPSAS, comparative information for the previous year has not been provided.
9. The International Public Sector Accounting Standards Board (IPSASB) has introduced IPSAS 28 (Financial Instruments: Presentation), IPSAS 29 (Financial Instruments: Recognition and Measurement), and IPSAS 30 (Financial Instruments: Disclosures). IPSASB requires entities to apply these standards for annual financial statements covering periods beginning on or after 1 January 2013, and also encourages earlier application. The Agency has already applied these standards in preparing these financial statements.

10. IPSASB has introduced IPSAS 31 (Intangible Assets) and requires entities to apply this Standard for annual financial statements covering periods beginning on or after 1 April 2011. IPSASB encourages earlier application of this Standard. The Agency has already applied IPSAS 31 in preparing these financial statements.

Accounting Convention

11. The financial statements have been prepared using the historical cost convention, other than for certain investments which are carried at fair value.

Functional currency and translation of foreign currencies

Functional and presentation currency

12. The financial statements are presented in euro, and all values are rounded to the nearest thousand euro (euro'000s). The functional currency of the Agency (including all Fund groups) is the euro.

Transactions and balances

13. Foreign currency transactions are translated into euro using the United Nations Operational Rates of Exchange (UNORE), which approximates the exchange rates prevailing at the dates of the transactions. The UNORE are set once a month, and revised mid-month if there are significant exchange rate fluctuations relating to individual currencies.

14. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the UNORE year-end closing rate.

15. Both realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

Materiality and use of judgment and estimates

16. Materiality is central to the Agency's financial statements. The Agency's accounting materiality framework provides a systematic method to identify, analyze, evaluate, endorse and periodically review materiality decisions crossing a number of accounting areas.

17. The financial statements necessarily include amounts based on judgments, estimates and assumptions by management. Changes in estimates are reflected in the period in which they become known.

NOTE 3: Significant accounting policies

Assets

Cash and cash equivalents

18. Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Investments

19. The Agency's investments comprise term deposits and Treasury bills, both with original maturities ranging between three and twelve months.

20. The term deposits are classified as 'loans and receivables'; this classification requires initial recognition at fair value plus transaction costs and subsequent measurement at amortized cost using the effective interest rate method.

21. The Treasury bills are classified as 'available for sale' for the purposes of IPSAS 29 Financial Instruments: Recognition and Measurement. Treasury bills are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognized directly in equity except for impairment losses, any interest calculated using the effective interest method, and foreign exchange gains and losses resulting from translating the amortized cost of the Treasury bill. These latter items are recognized in the Statement of Financial Performance. At de-recognition the cumulative fair value gain or loss previously recognized directly in equity is reversed and any difference between the carrying value and settlement value (if any) is recognized in the Statement of Financial Performance.

Accounts receivable

22. The Agency classifies its receivables as 'loans and receivables'. Receivables are recognized at their nominal value unless the effect of discounting is material.

23. Allowances for doubtful accounts are recognized when there is objective evidence that a receivable is impaired. In particular, for assessed contribution receivables, an allowance is recognized based on historical collection experience. Impairment losses are recognized in the Statement of Financial Performance.

Advances and prepayments

24. The Agency classifies its advances and prepayments as 'loans and receivables'. Advances are recognized at their nominal value unless the effect of discounting is material.

Inventories

25. Inventories are stated at the lower of cost and either current replacement cost or net realizable value.

26. Current replacement cost, which is used for inventories to be distributed to beneficiaries at no or nominal charge, is the cost the Agency would incur to acquire the asset on the reporting date.

27. Net realizable value, which is used for inventories to be sold at broadly commercial terms or used by the Agency, is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

28. Cost is determined using a weighted average cost formula unless the inventory items are unique in nature, in which case the specific identification method is used.

29. These policies apply to the Agency's major inventory categories as follows:

Inventory item	Valuation method	Cost formula
<i>Project inventories in transit to counterparts</i>	Lower of cost or current replacement cost	Specific identification method
<i>Safeguards spare parts, maintenance materials, and printing supplies</i>	Lower of cost or net realizable value	Weighted average cost

30. In addition to the above-mentioned major inventory categories, the Agency also produces and holds publications and reference materials.

31. Printed publications are held in inventory for sale or free distribution to end users. Sales are made on non-commercial terms in fulfilment of the Agency's mandate to disseminate information and guidance. Due to the availability to users of free download electronic copies of the Agency's publications, the future service potential of the physical inventory is currently not material and therefore the publications inventory is not recognized in these statements. Amounts spent on the acquisition and production of publications inventory are expensed when incurred.

32. Reference materials are produced by the Agency in quantities sufficient to satisfy lifetime demand, and distributed on largely non-commercial terms to interested parties. However, due to an indeterminable remaining holding period and related risks of obsolescence, the present value of the long term service potential of these reference materials, net of a required slow moving and obsolete inventory allowance cannot be reliably determined. Thus, reference materials are not recognized as assets and the costs of producing each type of reference material are expensed as incurred.

33. A charge for impairment is recorded in the Statement of Financial Performance in the year in which the inventory is determined to be impaired due to obsolescence or excess quantities relative to demand.

Property, plant and equipment

34. Property, plant and equipment (PP&E) items are stated at historical cost less accumulated depreciation and any recognized impairment loss. For donated assets, fair value as of the date of acquisition is utilized as a proxy for historical cost. Heritage assets are not capitalized. For the first-time recognition for IPSAS opening balance purposes, existing PP&E items are recognized at historical cost, except for the buildings in Seibersdorf, Austria which have been recognized at depreciated replacement cost (refer to Note 12).

35. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the Agency and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they are incurred.

36. Depreciation is charged so as to allocate the cost of assets over their estimated useful lives using the straightline method. The estimated useful lives are as follows and are subject to annual review:

Asset Class	Useful Life (Years)
Communications and IT Equipment	4
Vehicles	5
Furniture and Fixtures	12
Buildings	5 years (for prefabricated and containerized structures) and 15 to 100 years for others
Leasehold Buildings and Improvements	Shorter of lease term or useful life
Inspection Equipment	5
Laboratory Equipment	5
Other Equipment	5

Intangible assets

37. Intangible assets are carried at historical cost less accumulated amortization and any recognized impairment loss. For donated intangible assets, fair value as of the date of acquisition is used as a proxy for historical cost. Intangible assets are capitalized in the financial statements if they have a cost equal to or greater than €3 000, except for internally developed software for which the capitalization threshold has been set at €25 000.

38. Amortization is provided on a straight-line basis on all intangible assets of finite life, at rates that will allocate the cost or value of the assets to their estimated residual values. The estimated useful lives of major classes of intangible assets are as follows and are subject to annual review:

Asset Class	Useful Life (Years)
Software acquired separately	5
Software internally developed	5

39. Intangible asset recognition requires meeting strict criteria with respect to being identifiable, being under the Agency's control and contributing future economic benefits or service potential which can be reliably measured. Remaining useful life is also a consideration. Specific criteria were also developed to exclude items acquired below a cost of €3 000, and internally developed software below a cost of €25 000, due to the difficulty in measuring with precision, internal operational and research costs to be expensed and development costs to be capitalized.

Software acquisition and development

40. Acquired computer software licenses are capitalized based on costs incurred to acquire and bring the specific software into use. Costs that are directly associated with the development of software for use by the Agency are capitalized as an intangible asset. The most significant of these are the employee costs directly involved in the qualifying software development activities.

Impairment

41. Assets that are subject to depreciation or amortization are reviewed annually for impairment to ensure that the carrying amount is still considered to be recoverable. Impairment occurs through

complete loss, major damage or obsolescence. In case of complete loss, full impairment is recorded. In the cases of major damage or obsolescence, impairment is recognized when the impairment exceeds €25 000. In view of the asset intensiveness of the Agency, a specific year-end review for impairment is conducted for all PPE and intangible assets with a net book value of €100 000 or more. An impairment loss is recognized in the Statement of Financial Performance for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use. This impairment loss can be reversed in the subsequent periods if the recoverable service amount increases, to the extent of such increase, subject to a maximum of the impairment loss recognized.

Leases

Finance leases

42. Leases of tangible assets, for which the Agency has substantially all the risks and rewards of ownership, are classified as finance leases.

43. The Agency entered into a 99-year finance lease with the Austrian Government in 1979 for its share of the Vienna International Centre premises (VIC) for a nominal rent of 1 Austrian Schilling (equivalent to €0.07) per year. As part of the agreement, the Agency must operate its headquarters seat from Austria, otherwise it must return its share of the VIC premises to the Austrian Government. The Agency has availed of transitional provisions under IPSAS 17 Property, Plant and Equipment for the VIC buildings, and accordingly has not recognized its share of the VIC buildings as an asset in the Statement of Financial Position (refer to Note 12).

Operating leases

44. Leases where the lessor retains a significant portion of the risks and rewards inherent in ownership are classified as operating leases. Payments due under operating leases are charged to the Statement of Financial Performance as an expense.

45. The Agency holds nominal value operating leases for its Monaco premises, and the land at its Seibersdorf premises (most of the buildings were self-constructed by the Agency). In these instances, an expense is recognized based on the fair value of the rental streams using a valuation as at 31 December 2010 and a corresponding revenue is recognized to reflect the value of the donation from the Principality of Monaco and Austrian Governments, respectively. Revenue and expense for the fair value of the rental stream for the VIC land is not recognized in the Statement of Financial Performance. It is disclosed in the Notes to the Financial Statements (Note 12) together with the note on the VIC buildings.

Investments in associates and interests in joint ventures

Associates

46. An associate is an entity over which the Agency has significant influence but does not control.

47. The International Centre for Theoretical Physics at Trieste (ICTP) was established jointly by the IAEA, UNESCO and the Italian Government in 1964. The IAEA has significant influence in relation to the ICTP through its representation on the Steering Committee which governs the ICTP, along with the material funding it provides which is recognized as an expense in the Statement of Financial Performance. ICTP is therefore an associate of the IAEA. However, the ICTP has no formal ownership structure, dissolution provisions or other means of enabling any interest the IAEA may

have in the ICTP to be reliably measured. Accordingly, the equity method of accounting, required by IPSAS 7 Investments in Associates, does not apply.

Joint Ventures

48. A joint venture is a contractual arrangement whereby the Agency and one or more parties undertake an economic activity that is subject to joint control. The Agency has joint venture activities which are classified in three different forms:

- For jointly controlled operations where the Agency is the operator, the Agency recognizes in its financial statements the assets it controls, the liabilities and expenses it incurs, and recognizes any revenue according to the agreed billing arrangements. Where another organization is the operator, the Agency's expense and liability recognition is limited to the agreed billing arrangements.
- For jointly controlled assets, the Agency recognizes its share of the asset and any associated depreciation.
- For jointly controlled entities, the Agency applies the equity method of accounting. The investment in the jointly controlled entity is therefore initially recognized at cost, and the carrying amount is increased or decreased to recognize the Agency's share of the surplus or deficit of the jointly controlled entity for each reporting period. The Agency's share of the surplus or deficit of the jointly controlled entity is recognized in the Agency's Statement of Financial Performance.

49. The Agency is party to a joint venture arrangement with the United Nations (UN), the United Nations Industrial Development Organization (UNIDO) and the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO) on the Vienna International Centre premises and related common services activities. The IAEA has classified the premises and activities as follows:

Joint venture activity	Classification
Vienna International Centre premises, including any additions to the premises arising from Buildings Management Services, Major Repairs and Replacement Fund and Security Services activities.	Jointly controlled asset. The Agency's share is 53.804%. However, these premises have not been capitalized in the Agency's books (refer to Note 12).
Buildings Management Services	Jointly controlled operation, operated by UNIDO.
Major Repairs and Replacement Fund (MRRF)	Jointly controlled entity. The Agency's share is 53.804%. The main objective of this fund is to make capital additions to the VIC Buildings. The accounting treatment for MRRF should be aligned to the accounting treatment of the VIC Building. Since VIC Building has not been capitalized in these financial statements, MRRF has also not been equity accounted for. All disbursements by the Agency to MRRF during the year have been expensed.
Catering Services	Jointly controlled entity, operated by UNIDO. The Agency's share is 53.804%. It has been included in the financial statements on the basis of equity accounting method.

Commissary	Jointly controlled entity, operated by the Agency. The Agency's share is 53.804%. It has been included in the financial statements on the basis of the equity accounting method.
Medical Service	Jointly controlled operation, operated by the Agency.
Printing	Jointly controlled operation, operated by the Agency.
Security Services	Jointly controlled operation, operated by the UN.
Conference Services	Jointly controlled operation, operated by the UN.

50. More details on the jointly-controlled entities, including their latest summary financial information, are provided in Note 11.

Liabilities

Accounts payable

51. Accounts payable are financial liabilities in respect of goods or services that have been received by the Agency, but not paid for. They are designated as 'other financial liabilities'; and therefore are initially recognized at fair value and, when applicable, subsequently measured at amortized cost using the effective interest rate method. Given that the Agency's accounts payable generally fall due within 12 months, the impact of discounting is immaterial, and nominal values are applied to initial recognition and subsequent measurement.

Other financial liabilities

52. Other financial liabilities primarily include unspent funds held for future refunds and other miscellaneous items like unapplied cash receipts etc. They are designated similar to accounts payable, and are recorded at nominal value as the impact of discounting is immaterial.

Employee benefit liabilities

53. The Agency's employee benefits are classified as follows:

Short term employee benefits

54. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular monthly benefits (wages, salaries, allowances), compensated absences (paid sick leave, maternity leave) and other short-term benefits (education grant, reimbursement of taxes) and the current portion of long-term benefits provided to current employees. Short-term employee benefits are expected to be settled within 12 months of the reporting date and are measured at their nominal values based on accrued entitlements at current rates of pay. These are treated as current liabilities.

Post-Employment Benefit plans

55. Post-Employment Benefit plans comprise the After Service Health Insurance Plan, Repatriation Grants and End of Service Allowances, along with separation-based travel and shipping costs. The liability recognized for these plans is the present value of the defined benefit obligations at the reporting date. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by

discounting the estimated future cash outflows using interest rates of high quality euro corporate bonds with maturity dates approximating those of the individual plans.

56. Actuarial gains and losses arising from changes in actuarial assumptions are recognized directly in equity.

Long-term employee benefits

57. Long-term employee benefits are benefits that are payable beyond 12 months such as annual leave and home leave. Annual leave benefits are calculated on the same actuarial basis as other post-employment benefit plans, except that actuarial gains and losses are recognized immediately in the Statement of Financial Performance. Home leave benefits are calculated in-house, and are not discounted as the effect of discounting is not material. Long-term employee benefits are normally treated as non-current liabilities. Some elements of normally long-term benefits may be expected to be settled within 12 months of the reporting date. These elements which are expected to be settled within 12 months after the end of the reporting date are treated as current liabilities.

United Nations Joint Staff Pension Fund

58. The Agency is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan.

59. 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.

60. As a consequence, the Agency, in line with the other participating organizations in the Fund, is not in a position to identify its share of the underlying financial position and performance of the plan on an IPSAS 25 basis with sufficient reliability and hence has accounted for this plan as if it were a defined contribution plan.

61. The Agency's contribution to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. At the time of this report, the United Nations General Assembly has not invoked this provision.

62. Actuarial valuations are prepared every two years for the UNJSPF using the Open Group Aggregate method. The actuarial valuation provides an estimate of fund assets to fund liabilities taking into account inflation adjustments to benefit payments.

63. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

Termination benefits

64. Termination benefits are the benefits payable if the Agency terminates employment before the retirement date/contract expiry date. These are recognized when the IAEA gives notice to an employee

that the contract will be terminated early, or if termination is across a number of staff, when a detailed plan for termination exists.

Provisions

65. Provisions are recognized when the Agency has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation at the reporting date. This estimate is discounted where the effect of the time value of money is material.

Contingent liabilities and contingent assets

Contingent liabilities

66. Any possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Agency, are disclosed.

Contingent Assets

67. Any probable assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Agency, are disclosed.

Revenue

Non-exchange revenue

Assessed contributions from Member States

68. Revenue from assessed contributions from Member States is recorded as of the first day of the year to which they relate.

Voluntary contributions

69. Revenue from voluntary contributions is recognized upon the signing of a binding agreement between the Agency and the third-party providing the contribution. Voluntary contributions relating to the Technical Cooperation Fund are recorded at the later of the first day of the target year to which they relate or the date a binding pledge agreement is signed.

70. Voluntary contributions that include conditions on their use, such that the funds must be returned to the donor if such conditions are not met, are initially treated as deferred revenue and then recognized as revenue when the conditions are satisfied.

71. Voluntary contributions made to the Extra-Budgetary Programme Fund, Technical Cooperation Extrabudgetary Fund, and Trust Funds, Reserve Funds and Special Funds are generally received for a specific purpose and the related assets therefore have restrictions on their use.

National Participation Costs

72. National Participation Costs (NPCs) are charges to Member States receiving technical assistance, calculated as 5% of Member States' national programme, including national projects and

fellows and scientific visitors funded under regional or interregional activities. They were introduced in 2005 thereby replacing Assessed Programme Costs (APCs).

73. Revenue from National Participation Costs is recorded as of the first day of the year to which they relate.

Good and services in-kind contributions

Goods-in-kind

74. Goods that are donated to the Agency are recognized as revenue if the item value is worth €3 000 or more, with a corresponding increase in the appropriate asset, when such donations are received by the Agency. Revenue is recognized at fair value, measured as of the date the donated goods are recognized. Fair value is generally measured by reference to the price of the same or similar goods in an active market.

75. The Agency is provided with the use, under lease type arrangements with governments, of some of its buildings and facilities. The Agency's treatment of these arrangements is set out in the leases section above.

Services-in-kind

76. Services that are donated to the Agency are not recognized as revenue although disclosures around the nature and type of these services are provided.

Exchange revenue

77. Revenue from the sale of goods is recognized when significant risk and rewards of ownership of the goods are transferred to the purchaser.

Interest revenue

78. Interest revenue is recognized over the period that it is earned. Interest on Treasury bills is recognized using the effective interest rate method.

Expenses

Exchange expenses

79. Exchange 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 delivered and accepted by the Agency. For some service contracts, this process may occur in stages.

Non-exchange expenses

80. The Agency incurs non-exchange expenses primarily in the provision of grants to fund research and fellowship agreements. An expense is recognized at the point that the Agency has authorised the funds for release, or has a binding obligation to pay, whichever is earlier.

81. Where grant recipients must meet performance criteria before the final instalment is paid, the final instalment is recognized as an expense upon certification of fulfilment of performance criteria.

82. For yearly non-exchange funding agreements such as the Agency's funding of the Abdus Salam International Centre for Theoretical Physics, an expense is recognized for the period to which the funding relates.

Fund Accounting and Segment Reporting

83. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all funds. Fund balances represent the accumulated residual of revenue and expenses.

84. Segment reporting information provided is on the basis of the Agency's activities on both a major programme basis and a source of funding (Fund Groups) basis.

Major Programmes

85. The Agency's six major programmes form the structure for regular budget appropriations. The six major programmes comprise:

1. *Nuclear Power, Fuel Cycle and Nuclear Science* - Major Programme 1 provides core scientific and technical support to Member States in the fields of nuclear power, nuclear fuel cycle and material technologies, research reactor operation and nuclear science. It builds capacity for energy system analysis and planning as well as for infrastructure development for new power and research reactors. It ensures broad Member State access to nuclear information and publications in these and other areas, and provides Member States with guidance and assistance for managing nuclear knowledge.
2. *Nuclear Techniques for Development and Environmental Protection* - Major Programme 2 supports the Millennium Development Goals (MDG) by assisting Member States to use nuclear techniques.
3. *Nuclear Safety and Security* - Major Programme 3 establishes and continuously improves Agency safety standards and security guidance. The Agency provides for application of safety standards to its own operations, as well as — upon request — to activities carried out by Member States. This major programme also provides for international preparedness for effectively responding to and mitigating the consequences of a nuclear and radiological incident or emergency, and for supporting global efforts to improve nuclear security.
4. *Nuclear Verification* - Major Programme 4 supports the Agency's statutory mandate to establish and administer safeguards designed to ensure that special fissionable and other materials, services, equipment, facilities and information made available by the Agency or at its request or under its supervision or control are not used in such a way as to further any military purpose. Under this major programme, the Agency carries out information analysis, verification and evaluation activities, and manages safeguards instrumentation and analytical services required for implementing safeguards. Strategic planning and development activities enable the Agency to improve the overall effectiveness and efficiency of the safeguards system.
5. *Policy, Management and Administration Services* - Major Programme 5 comprises policy, management and administration functions. Firstly, leadership under the Director General to provide the coordination necessary to maintain a one-house approach, the strategic planning of programmes and the formulation of associated budgets, the setting of priorities, the evaluation and assessment of performance, and the maintenance of physical and information security. Secondly, services provided to Member States and the Agency's Policy-making Organs —

particularly the General Conference and the Board of Governors, its committees and working groups — to enable them to effectively discharge their statutory responsibilities. Thirdly, the necessary support in terms of legal, financial, human resources, conference and document services, procurement and general services to the implementation and delivery of the Agency's programmes. Fourthly, the internal audit, investigation, evaluation and management services provided to senior management and, through evaluations, also to the Board of Governors. Finally, the management and interchange of information within the Secretariat, and between the Secretariat and Member States, the media and the general public.

6. *Management of Technical Cooperation for Development* – Major Programme 6 covers the management of the technical cooperation programme (TCP), which comprises national, regional and interregional projects funded from the Technical Cooperation Fund (TCF) and extrabudgetary contributions.

Fund Groups

86. Agency activities across these six major programmes are financed through five Fund Groups. The Funds are established on the basis of resolutions passed by the General Conference and are administered in accordance with the Financial Regulations adopted by the Board of Governors, and Financial Rules issued by the Director General. Each Fund Group has differing parameters around how the revenue can be utilized. The five groups of funds are described below.

87. *Fund Group I (Regular Budget Fund and Working Capital Fund)* is the principal means of financing Agency activities and enables the Agency to meet obligations arising from authorized appropriations. The Regular Budget Fund is based on an annual Regular Budget approved by the General Conference and financed from assessed contributions and miscellaneous income. The Working Capital Fund, which serves to finance appropriations pending the receipt of contributions, and for purposes which are determined from time to time by the Board of Governors with the approval of the General Conference, is financed from advances by Member States.

88. *Fund Group II (General Fund – Technical Cooperation Fund)* is the main financing mechanism for the Agency's technical cooperation activities by Member States. Fund Group II is based on General Conference approved one year allocations which are financed primarily from voluntary contributions where Member States are asked to pledge contributions against their indicative share of the allocation, along with national participation costs and miscellaneous income.

89. *Fund Group III (General Fund – Extrabudgetary Programme Fund)* is a financing mechanism to enable donor countries and international organizations to make voluntary contributions for activities in support of programmes within the Regular Budget as nominated by the donor. They are available for these programmes until they are actually used and in consultation with the donor concerned.

90. *Fund Group IV (General Fund – Technical Cooperation Extrabudgetary Fund)* is a financing mechanism to enable donor countries and international organizations to make voluntary contributions for activities in support of projects approved by the IAEA Board of Governors as nominated by the donor. They are available for these projects until they are actually used and in consultation with the donor concerned.

91. *Fund Group VI (Trust Funds, Reserve Funds and Special Funds)* relates to funds for specific activities.

Budget Comparison

92. The Agency's budget and accounting bases differ. Budgets within the Agency are approved on a modified cash basis, rather than the full accrual basis of IPSAS.

93. While the Agency's financial statements cover all activities of the Agency, budgets are separately approved annually for Fund Group I (classified according to major programme) and Fund Group II (based on target for voluntary contributions). There are no approved budgets relating to Fund Groups III, IV and VI. All Fund Groups are administered in accordance with the Financial Regulations adopted by the Board of Governors, and Financial Rules issued by the Director General.

94. Statement V (Statement of Comparison of Budget with Actual Amounts) compares the final budgets for the Regular Budget Fund to actual amounts calculated on the same basis as the corresponding budgetary amounts. As the bases used to prepare the budget and financial statements differ, Note 36b provides a reconciliation between the actual amounts presented in that note to the actual amounts presented in the Statement of Cash Flows.

NOTE 4: First implementation of IPSAS

95. This is the first set of IAEA financial statements prepared on a full accrual basis and which comply with the requirements of International Public Sector Accounting Standards (IPSAS). Previous IAEA financial statements were prepared to conform to the United Nations System Accounting Standards (UNSAS), and were presented on a modified cash basis. The table below summarizes the adjustments made to the audited 2010 Statement of Assets, Liabilities, Reserves and Fund Balances to incorporate the changes in accounting policy in order to produce an IPSAS-compliant opening Statement of Financial Position as at 1 January 2011:

	UNSAS 31-12-2010	Effect of transition to IPSAS	IPSAS 01-01-2011
	(expressed in euro'000s)		
<u>ASSETS</u>			
Current Assets			
Cash and cash equivalents	289 733	(133 023)	156 710
Investments	-	133 029	133 029
Accounts receivable	50 860	2 498	53 358
Advances and prepayments	10 715	3 503	14 218
Inventory	-	4 128	4 128
Total current assets	351 308	10 135	361 443
Non-current assets			
Accounts receivable	1 946	(954)	992
Advances and prepayments	3 672	16 993	20 665
Investment in common service entities	-	3 382	3 382
Property, plant and equipment	-	36 773	36 773
Intangible assets	-	-	-
Total non-current assets	5 618	56 194	61 812
TOTAL ASSETS	356 926	66 329	423 255
<u>LIABILITIES</u>			
Current Liabilities			
Accounts payable	680	32 604	33 284
Deferred revenue	30 564	42 321	72 885
Employee benefit liabilities	74	13 030	13 104
Other financial liabilities	136 659	(135 433)	1 226
Total current liabilities	167 977	(47 478)	120 499
Non-current Liabilities			
Deferred revenue	-	1 077	1 077
Employee benefit liabilities	-	155 063	155 063
Total non-current liabilities	-	156 140	156 140
TOTAL LIABILITIES	167 977	108 662	276 639
<u>NET ASSETS</u>	188 949	(42 333)	146 616
Fund balances	123 749	(69 193)	54 556
Reserves	65 200	26 860	92 060
TOTAL EQUITY	188 949	(42 333)	146 616

96. The adjustments made to generate the 1 January 2011 opening Statement of Financial Position have resulted in a €42.333 million reduction in total equity. The principal adjustments can be analyzed as follows:

Recognition of Employee Benefits Liabilities

97. Recognition of employee benefits liabilities resulted in a reduction in equity by €168.093 million. Liabilities relating to post-employment employee benefits are recognized in the financial statements based on their valuation as at 1 January 2011. The most significant adjustment relating to this is a liability of €106.033 million in respect of After Service Health Insurance, with a corresponding decrease in net equity. Recognition of other short-term and long-term employee benefits liabilities resulted in a reduction of equity by €62.060 million as follows:

	(expressed in euro'000s)
	01-01-2011
Repatriation grant and travel	(20 442)
Other separation and end-of-service entitlements	(24 075)
Accumulated annual leave	(14 912)
Home leave	(1 096)
Staff contribution liability towards health insurance reserve	(793)
Other employee benefits	(742)
Net effect on Equity	<u>(62 060)</u>

De-recognition of Unliquidated Obligations

98. Liabilities relating to unliquidated obligations are no longer recognized in the financial statements under IPSAS, as they do not correspond to the recognition of expenses in accordance with accrual accounting. This adjustment has resulted in a reduction in liabilities of €115.369 million, with a corresponding increase in equity.

Reclassification of Funds Received for Future Use

99. These funds were previously included within reserves and fund balances under UNSAS. Under IPSAS they are classified as deferred revenue within liabilities, resulting in a €42.321 million reduction in equity.

Recognition of Property, Plant and Equipment (PP&E)

100. PP&E held by the IAEA as at 1 January 2011 has been recognized in the financial statements (except where transitional provisions have been applied – see Note 12), which resulted in an increase in equity by €36.773 million as follows:

(expressed in euro'000s)

01-01-2011

Seibersdorf premises	12 060
Clean Lab Extension (CLE) under construction	6 201
Recognition of other property, plant and equipment net value	18 512
Net effect on Equity	36 773

Accruals for goods and services delivered

101. Recording of accruals for goods and services delivered but remaining unpaid as at the end of 2010, resulted in an increase in the liabilities of €32.604 million, with a corresponding reduction in equity.

De-recognition of Other Liabilities

102. Some of the amounts previously recognized as liabilities under UNSAS do not meet the criteria for recognition as liabilities under IPSAS. These have resulted in an increase in equity, as detailed below:

(expressed in euro'000s)

01-01-2011

Reclassification to equity - carryover of unobligated appropriations	10 751
Reclassification to equity - unrealized FX gains reserve	6 312
Reclassification to equity - uncollected APC/NPC	2 013
Reclassification to equity - provision for ERP implementation	484
Reclassification to equity - uncollected voluntary contributions	253
Reclassification to equity - Uncollected Misc. Income	251
Net effect on Equity	20 064

103. Other opening balance adjustments resulted in an increase of €28.479 million in equity. The nature of these remaining adjustments is detailed below:

	(expressed in euro'000s)	
ASSETS		
Current assets		
Cash and cash equivalents		(133 023)
<i>Reclassification to Investments - T-Bills</i>	(78 496)	
<i>Reclassification to investments - Term Deposits > 3 months</i>	(54 527)	
Investments		133 029
<i>Reclassification from Investments - T-Bills</i>	78 496	
<i>Reclassification from investments - Term Deposits > 3 months</i>	54 527	
<i>Fair value T-Bills</i>	6	
Accounts receivable		2 498
<i>Accounts receivable voluntary contributions</i>	7 841	
<i>Allowance for doubtful accounts</i>	(5 440)	
<i>Other</i>	97	
Advances and prepayments		3 503
<i>Advance to health insurance premium reserve</i>	1 585	
<i>UNDP operating fund</i>	1 980	
<i>Other advances</i>	(62)	
Inventory		4 128
<i>Material stock account</i>	358	
<i>Inventory in transit</i>	3 770	
Non-current assets		
Accounts receivable (<i>allowance for doubtful accounts</i>)		(954)
Advances and prepayments		16 993
<i>Advance to BMS Special Fund</i>	12 357	
<i>Advance for BMS Ad-hoc Projects</i>	4 531	
<i>Home leave advance payment</i>	105	
Investment in common service entities		3 382
<i>Investment in Commissary</i>	2 796	
<i>Investment in Catering Services</i>	586	
LIABILITIES		
Non-current liabilities		
<i>Deferred revenue on voluntary contributions with conditions</i>	(1 077)	
Deferred revenue		(1 077)
NET EFFECT ON EQUITY		28 479

NOTE 5: Cash and cash equivalents

	(expressed in euro'000s)	
	31-12-2011	01-01-2011 (Restated)
	<hr/>	<hr/>
Cash at bank and on hand	29 461	33 631
Money market funds	42 670	48 310
Term deposits with original maturity less than 3 months	189 531	74 769
Total cash and cash equivalents	261 662	156 710
	<hr/>	<hr/>

104. Term deposits with original maturity less than 3 months have increased due to investment of extra-budgetary contributions received during the year, pending their utilization for projects.

105. Some cash is held in currencies which are either legally restricted or not readily convertible to euro. At 31 December 2011, the euro equivalent of these currencies is €1.434 million based on the respective United Nations operational rates of exchange.

NOTE 6: Investments

	(expressed in euro'000s)	
	31-12-2011	01-01-2011 (Restated)
	<hr/>	<hr/>
Term deposits with original maturity from 3 to 12 months	54 954	54 527
Treasury bills with original maturity from 3 to 12 months	87 800	78 502
Total investments	142 754	133 029
	<hr/>	<hr/>

NOTE 7: Accounts receivable

	(expressed in euro'000s)	
	31-12-2011	01-01-2011 (Restated)
Receivables from Non-exchange Transactions		
Assessed contributions receivable		
Regular Budget	21 156	37 256
Working Capital Fund	63	3
Allowance for doubtful accounts	(4 608)	(4 690)
Total assessed contributions receivable	16 611	32 569
Voluntary contributions receivable		
Technical cooperation fund	3 940	3 569
Extra-budgetary	18 057	8 094
Reimbursable arrangements	-	121
Allowance for doubtful accounts	(646)	-
Total voluntary contributions receivable	21 351	11 784
Other receivables		
Assessed programme costs	1 394	1 705
National participation costs	231	308
Safeguards agreements receivable	179	169
Allowance for doubtful accounts	(1 394)	(1 705)
Total other receivables	410	477
Total receivables from non-exchange transactions	38 372	44 830
Receivables from Exchange Transactions		
Accounts receivable - exchange transactions	9 689	9 520
Allowance for doubtful accounts	(264)	-
Total accounts receivable from exchange transactions	9 425	9 520
Total accounts receivable	47 797	54 350
Composition of accounts receivable		
Current	47 102	53 358
Non-current	695	992
Total accounts receivable	47 797	54 350

106. Accounts receivable – exchange transactions primarily include income tax and value-added tax (VAT) recoverable from various national governments.

107. Non-current receivables comprise the non-current portion (i.e., receivable after 31 December 2012) of assessed contribution receivables for which a payment plan has been agreed.

NOTE 8: Receivables information

Allowance for doubtful debts

	(expressed in euro'000s)				
	Allowance for doubtful debt at 1 January 2011	Doubtful debt expense during the year	Amounts written off as uncollectible	Doubtful debt expense reversed	Allowance for doubtful debt at 31 December 2011
Receivables from Non-exchange Transactions					
<i>Assessed contributions receivable</i>					
Regular Budget	4 690	-	-	(82)	4 608
Working Capital Fund	-	-	-	-	-
<i>Total Assessed contributions receivable</i>	4 690	-	-	(82)	4 608
<i>Voluntary contributions receivable</i>					
Technical cooperation Fund	-	646	-	-	646
<i>Total Voluntary contributions receivable</i>	-	646	-	-	646
<i>Other receivable</i>					
Assessed programme costs	1 705	-	-	(311)	1 394
<i>Total other receivable</i>	1 705	-	-	(311)	1 394
Total receivables from Non-Exchange Transactions	6 395	646	-	(393)	6 648
Receivables from Exchange Transactions	-	300	(36)	-	264
Total receivables	6 395	946	(36)	(393)	6 912

Aging of receivables

	(expressed in euro'000s)				
	Carrying	< 1 year	Outstanding for		
			1-3 years	3-5 years	> 5 years
Receivables from Non-exchange Transactions					
<i>Assessed contributions receivable</i>					
Regular Budget	21 156	13 977	1 503	501	5 175
Working Capital Fund	63	61	2	-	-
<i>Total Assessed contributions receivable</i>	21 219	14 038	1 505	501	5 175
<i>Voluntary contributions receivable</i>					
Technical cooperation Fund	3 940	2 334	911	2	693
Extra-budgetary	18 057	18 057	-	-	-
<i>Total Voluntary contributions receivable</i>	21 997	20 391	911	2	693
<i>Other receivables</i>					
Assessed programme costs	1 394	-	-	-	1 394
National participation costs	231	-	152	54	25
Safeguards agreements contributions	179	179	-	-	-
<i>Total Other receivables</i>	1 804	179	152	54	1 419
Total receivables from Non Exchange Transactions	45 020	34 608	2 568	557	7 287
Receivables from Exchange Transactions	9 689	5 993	2 414	1 131	151
Total receivables	54 709	40 601	4 982	1 688	7 438

Management of credit risk relating to receivables

108. Assessed contributions comprise the majority of the Agency receivables; they are due and payable within 30 days of receipt of the assessment letter or as of the first day of the financial year whichever is later. As of 1 January the following year, the unpaid balance is considered one year in arrears. Under Article XIX.A of the Statute, a Member States loses its voting rights when its arrears equal or exceed the assessed amounts for the previous two years.

109. To facilitate the payment of arrears of assessed contributions, payment plans are available whereby arrears are consolidated and made payable in annual instalments over a period of up to 10 years. As long as the Member State with payment plans pays the annual instalment of the arrears, the current year's assessed contribution and outstanding advances to the Working Capital Fund, voting rights may be reinstated by the General Conference. The carrying value of receivables that would otherwise be past due whose terms have been renegotiated is €0.794 million.

NOTE 9: Advances and prepayments

	(expressed in euro'000s)	
	31-12-2011	01-01-2011 (Restated)
Vienna International Centre common services	27 223	21 235
Other international organizations	1 014	2 096
Staff	6 145	5 715
Health insurance premium reserve account	1 913	1 585
Commissary	809	809
Travel	197	-
Other	2 402	3 442
Total advances and prepayments	39 703	34 882
Advances and prepayments composition		
Current	11 862	14 218
Non-current	27 841	20 665
Total advances and prepayments	39 703	34 883

110. The Vienna International Centre based organizations (VBOs) have an agreement whereby the costs of the Vienna International Centre (VIC) common services rendered by each organization such as Buildings Management Services, UN Security Services, Medical Services, etc., are to be shared according to the established cost sharing ratios. The ratios are derived each year based on key factors such as number of employees, total space occupied, etc. Cost sharing ratios for the Agency for 2011 and 2010 were 53.804% and 53.528%, respectively.

111. The advances for the VIC common services reflect the payments made by the Agency to the common services operated by other VBOs which have not yet been utilized by them for providing the services.

112. Staff advances primarily consist of advances pending settlement, towards education grant and income taxes.

113. Vanbreda International provides health insurance coverage to staff members, and acts as custodian of the Health Insurance Premium Reserve Account. The purpose of the reserve account is to retain the excess of premiums paid over sums due to Vanbreda International and absorb future increases in premiums. The reserve account is owned 50% by the Agency (presented as a reserve in Note 22), and 50% by staff (presented as a liability in Note 16).

114. The commissary advance is a non-current advance which represents the initial funds made available to the commissary as of 1 October 1979.

NOTE 10: Inventory

	(expressed in euro'000s)	
	31-12-2011	01-01-2011
		(Restated)
Project inventories in-transit to counterparts	4 909	3 770
Printing supplies, safeguards spare parts and maintenance materials	628	358
Total inventory	5 537	4 128

115. Project inventories encompass all goods, i.e. equipment, supplies and software that are procured by the Agency for transfer to recipient Member and non-Member States. The transfer of these project inventories, also known as 'field procurement', takes place mostly under the TC Programme, but also directly within the technical divisions in the framework of specific assistance programmes. Such goods that are in transit to third party recipients as on the reporting date are included in Project inventories in-transit to counterparts. These project inventories are de-recognized when they clear the customs in the recipient country, which is considered the point at which the Agency transfers control over such inventories to the recipients.

116. Other inventory items such as publications and reference materials have not been recognized as assets in the Statement of Financial Position (refer to Note 3).

117. The initial determination of the measured cost of reference materials inventories based on estimated current replacement costs was approximately €4 million. However, due to the indeterminable remaining holding period and the related risks of obsolescence, the present value of the long term service potential of these assets, net of a required slow moving and obsolete inventory allowance cannot be reliably determined. Thus, reference materials are not recognized as assets and the costs of producing each type of reference material are expensed as incurred. The amount of labour and allocated overheads incurred by the Agency's laboratories for the production of reference materials during 2011 was approximately €0.166 million.

118. No impairment expense for inventory has been recorded during the year under review.

NOTE 11: Investment in common services entities

	(expressed in euro'000s)	
	31-12-2011	01-01-2011 (Restated)
Investment in Commissary	3 294	2 796
Investment in Catering Services	622	586
Total investment in common services entities	3 916	3 382

The VIC Commissary

119. The Vienna International Centre (VIC) Commissary is an entity that is jointly controlled by the IAEA and other VBOs. The Commissary was established following an agreement effective as of 1 April 1972 between the IAEA and the Government of Austria. Pursuant to a memorandum of understanding, dated 31 March 1977, between the IAEA, the UN and UNIDO, concerning the allocation of common services at the VIC, the responsibility for managing and operating the commissary was assigned to the IAEA. The Commissary sells tax free household items for personal consumption to staff members of VBOs and other specified groups of individuals on a cost recovery basis.

120. On dissolution, any residual net equity is distributed to the Staff Assistance Funds of the IAEA and other VBOs based on the proportion of sales to respective VBOs' staff members over the five years preceding dissolution. While the IAEA has a potential ownership interest in its Staff Assistance Fund, it is not recognized as an asset. However, the IAEA has recognized its share in the surplus of the Commissary in 2011, using the equity method, in the Buildings Management Services (BMS) cost-sharing ratio for 2011, i.e., at 53.804%.

121. The Commissary has no legal personality of its own, its assets and liabilities are held in the IAEA's legal name. The IAEA (along-with other VBOs) is therefore potentially exposed to any residual liabilities of the Commissary. Summary financial information is provided below:

Commissary Summary Financial Information	(expressed in euro'000s)	
	31-12- 2011	31-12-2010
Revenue	28 397	28 270
Expense	27 498	25 341
Net surplus/(deficit)	899	2 929
Assets current	14 924	11 991
Assets non-current	457	452
Liabilities current	2 174	291
Liabilities non-current	7 085	6 929
Equity	6 122	5 223

Catering Service

122. The Catering Service is an entity that is jointly controlled by the IAEA and other VBOs. The Catering Service provides food, beverages and services to staff members of VBOs and other specified groups of individuals, within the VIC premises through a contractor on a cost recovery basis.

123. On dissolution, any residual net equity will be distributed to the Staff Assistance Funds of the IAEA and other VBOs. While IAEA has a potential ownership interest in its Staff Assistance Fund, it is not recognized as an asset.

124. The Catering Service has no legal personality of its own, its assets and liabilities are held in the legal name of UNIDO. Therefore, UNIDO, along with other VBOs, is potentially exposed to any residual liabilities of the Catering Service. Summary financial information is provided below:

Catering Services Summary Financial Information	(expressed in euro'000s)	
	31-12- 2011	31-12-2010
Revenue	6 059	5 983
Expense	5 997	5 884
Net surplus/(deficit)	62	99
Assets current	1 806	1 755
Assets non-current	479	542
Liabilities current	1 129	1 203
Equity	1 156	1 094

Abdus Salam International Centre for Theoretical Physics at Trieste

125. The Abdus Salam International Centre for Theoretical Physics at Trieste (ICTP) is an associate of the IAEA, however it is not equity accounted as there is no formal ownership structure or other means of ascribing ownership interest.

126. Summary financial information of the ICTP is provided below.

ICTP Summary Financial Information	(expressed in euro'000s)	
	31-12- 2011	31-12-2010
Revenue	28 020	27 027
Expense	27 528	26 323
Net surplus/(deficit)	492	704
Assets	14 959	13 778
Liabilities	11 086	10 396
Equity	3 873	3 382

127. The Agency provided funding to ICTP of €2.445 million in 2011 and of €2.436 million in 2010. These amounts are expensed in the books of IAEA when paid.

NOTE 12: Property, Plant and Equipment

(expressed in euro'000s)

	Buildings and Leasehold Improvements	Furniture & Fixtures	Communications & Information Technology Equipment	Inspection Equipment	Laboratory Equipment	Vehicles	Other Equipment	Assets under construction	Total Property, Plant and Equipment
Cost at 1 January 2011	20 018	2 404	23 752	61 484	22 123	958	911	7 050	138 700
Additions	1 934	119	4 111	826	2 222	51	1 392	8 675	19 330
Disposals	-	(12)	(1 438)	(2 987)	(745)	(32)	(9)	-	(5 223)
Assets under Construction Capitalized	2 747	-	72	3 648	3 485	-	696	(10 648)	-
Other changes	-	-	9	108	60	84	(261)	-	-
Cost at 31 December 2011	24 699	2 511	26 506	63 079	27 145	1 061	2 729	5 077	152 807
Accumulated depreciation at 1 January 2011	7 958	1 392	18 835	52 752	19 682	632	676	-	101 927
Additions	-	-	-	-	-	-	-	-	-
Depreciation	546	182	2 484	3 786	1 536	107	270	-	8 911
Disposals	-	(9)	(1 408)	(2 987)	(745)	(30)	(9)	-	(5 188)
Impairment losses	-	-	2	-	-	-	-	-	2
Impairment losses reversed	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-
Accumulated depreciation 31 December 2011	8 504	1 565	19 913	53 551	20 473	709	937	-	105 652
Net carrying amount 31 December 2011	16 195	946	6 593	9 528	6 672	352	1 792	5 077	47 155

128. In accordance with IPSAS 17, in adopting accrual accounting for the first time, opening balances of property, plant and equipment are initially recognized at cost. The opening balance of buildings at Seibersdorf, Austria was obtained from a professional external valuation as at 1 January 2011 applying depreciated replacement cost.

129. The above does not include the cost of the Vienna International Centre premises for which the IAEA has taken transitional provisions under IPSAS 17.

130. The Agency has entered into a 'Headquarters Agreement' with the Austrian Government in 1979 for a 99-year lease for its share of the VIC premises for a nominal rent of 1 Austrian schilling per year. As part of the agreement, the Agency must operate its headquarters seat from Austria, otherwise it must return its share of the VIC premises to the Austrian Government.

131. Since the Headquarters Agreement is essentially in the nature of a finance lease, the Agency was required to capitalize its share of the VIC buildings on the basis of the BMS cost-sharing ratio. However, the Agency has availed of transitional provisions under IPSAS 17 Property, Plant and Equipment for the VIC buildings, and accordingly has not recognized its share of the VIC buildings as an asset in the Statement of Financial Position. An external valuation of the depreciated replacement cost as at 1 January 2011 for the VIC buildings resulted in an amount of €311.686 million (IAEA's share €166.840 million based on 2010 BMS cost-sharing ratio) and the fair rental value of the VIC land was €1.393 million per annum (IAEA's share for the year €0.749 million based on 2011 BMS cost-sharing ratio).

132. PPE assets under construction as at 1 January 2011 primarily pertained to the Clean Lab Extension (CLE) at Seibersdorf. CLE was commissioned in June 2011 (€4.988 million), and the respective balances were capitalized under the asset classes 'Buildings' and 'Laboratory Equipment'.

133. During 2011, excluding CLE, 16 additional PPE projects were undertaken, the largest of which was the Nuclear Materials Laboratory (NML). Of these, 14 were information technology (IT) projects, comprising primarily hardware, amounting to €0.608 million, three of which were completed in 2011. The remaining projects will continue in 2012 and are recognized as construction in progress (CIP) as at 31 December 2011.

134. PPE projects with a value greater than €0.100 million, their completion status and their values on 31 December 2011 are as follows:

- *Nuclear Materials Laboratory (NML) (€3.117 million) – (CIP)*: It is a project to construct a 9,550 square metres building housing 4,500 square metres of new sample and analysis laboratory as well as new fissile materials storage capability, lab support areas and office space.
- *ISS - Disaster Recovery Infrastructure (DRI) Move to ASF (ESU) (€0.328 million) – (CIP)*: It is a project to move the disaster recovery function from the current location in International Computer Centre (ICC) to the new IAEA-owned facility in Seibersdorf, Austria (ASF) with minimal impact on the IAEA disaster recovery capability during and after the project
- *JMox (€0.269 million) – (CIP)*: It is a project to develop an integrated Safeguards approach for a large mixed oxide fuel fabrication plant in Japan.

135. As at 31 December 2011, the gross value of fully depreciated PP&E which were still in use amounted to €79.754 million.

NOTE 13: Intangible assets

	(expressed in euro'000s)				
	Computer software purchased	Computer software internally developed	Other intangible assets	Intangible assets under development	Total intangible assets
Movements for each class of intangible assets are as follows:					
Cost at 1 January 2011	-	-	-	-	-
Additions	657	-	-	6 536	7 193
Disposals	(82)	-	-	(33)	(115)
Assets under Construction Capitalized	-	613	-	(613)	-
Cost at 31 December 2011	575	613	-	5 890	7 078
Accumulated amortization at 1 January 2011	-	-	-	-	-
Amortization	73	41	-	-	114
Disposals	-	-	-	-	-
Impairment losses	-	-	-	-	-
Impairment losses reversed	-	-	-	-	-
Accumulated amortization 31 December 2011	73	41	-	-	114
Net carrying amount 31 December 2011	502	572	-	5 890	6 964

136. Intangible asset recognition requires meeting strict criteria with respect to being identifiable, being under the Agency's control and contributing future economic benefits or service potential which can be reliably measured. Remaining useful life is also a consideration. Based on this, the Agency currently recognizes only software as intangible assets. Specific criteria was also developed to exclude acquired software below a cost of €3 000, and internally developed software below a cost of €25 000, due to the difficulty in measuring with precision, internal operational and research costs to be expensed and development costs to be capitalized.

137. According to IPSAS 31, an entity that has not previously recognized intangible assets and uses the accrual basis of accounting, shall apply this Standard prospectively. The Agency has applied this Standard prospectively from 01 January 2011, and accordingly, has recognized intangible assets acquired on or after that date. Intangible assets acquired prior to that date have not been recognized, due to lack of tracking mechanisms in place prior to 2011 necessary to provide a reliable cost determination. Hence there is no opening balance for intangible assets.

138. In 2010, the Agency undertook significant software development initiatives, amounting to millions of euros, most notably, the Agency-wide Information System for Programme Support (AIPS) Plateau I and the on-going IAEA Safeguards Information System Reengineering Project (IRP) carried forward to 2011. These are not included in the opening balances, as mentioned above, but all costs being incurred on these projects with effect from 01 January 2011 are being capitalized, subject to their meeting the asset recognition criteria.

139. During 2011, there were 34 internal development software projects amounting to €6.126 million. Six of those projects were completed and put into service in 2011; development on the remaining 28 projects will continue into 2012 and these projects are recognized as construction in progress (CIP) software as at 31 December 2011.

140. Projects with a value greater than €0.100 million, their completion status and their values on 31 December 2011 are as follows:

- *IRP (€2.206 million)* – (CIP): The ISIS Re-engineering Project (IRP) is replacing the legacy Safeguards information system by putting in new state of the art infrastructure.
- *Geospatial Exploitation System (GES) (€0.937 million)* – (CIP): It provides a gateway to critical information for the Department of Safeguards (SG). Through an interactive 3D earth experience, users have access to site information from a global perspective. Through GES it is possible to search and view satellite imagery archives, geographical information system (GIS) data such as imagery, building footprints, and non-spatial information such as open source reports and multimedia data.
- *AIPS Plateau 2 (€0.659 million)* – (CIP): This is made up largely of two domains: Contacts Management, and Programme and Project Planning and Monitoring. With the first domain, the Agency is consolidating contacts data across several systems and introducing centralized master data management. With the second domain, the Agency is introducing a new planning and budgeting system which will be used to develop the programme and budget for the 2014-2015 biennium.
- *Reference Data Management (RDM) (€0.298 million)* – (CIP): RDM manages Safeguards core data. It will be the central repository for Authority, Static and Location information which will be used by all Safeguards applications.
- *Development SPRICS 2.0 Phase 2 (€0.268 million)* – (CIP): SPRICS supports the process for managing the Safeguards research and development (R&D) projects through a new enabled Web process.
- *Oracle Single Sign-on, OBIEE 11g (€0.207 million)* – (CIP): The AIPS project will introduce single sign-on, by which user access to AIPS will no longer require a separate user name and password, but will instead be provided automatically by the user's daily network log-in. An upgrade is also being carried out on OBIEE, the AIPS reporting platform, taking it from version 10g to version 11g. This upgrade addresses certain technical issues and introduces new features required by the Programme and Project Management domain.
- *State Supplied Data Handling (SSDH) – Phase B (€0.182 million)* – (CIP): SSDH implements software solutions to process data supplied by the Member States.
- *Unified System for Incident and Emergency (USIE) (€0.180 million)* – (Completed): USIE, the IAEA's Unified System for Information Exchange in Incidents and Emergencies, is a secure web site made available to contact points in IAEA Member States and relevant International Organisations to facilitate the exchange of official information during nuclear and radiological incidents and emergencies in the framework of the Early Notification and Assistance Conventions and the International Nuclear and Radiological Events Scale (INES). USIE replaces the former Emergency Notification and Assistance Convention website (ENAC) and integrates functions formerly provided on the IAEA Nuclear Events Web Site (NEWS).
- *CSS-ASSYST (€0.169 million)* – (Completed): The objective of this project is to upgrade the current IT service management tool assyst from v7 to v9. Assyst v9 is introducing a web client tool for support staff (AssystWeb), a self-service portal for IT service requests (AssystNet), and a dashboard for real time monitoring which offers concise visual display of key assyst data and provides summaries and warnings of current business conditions and many other optional components and functionalities.

- *CTST – Comp. Task Scheduling & Tracking (€0.147 million) – (CIP)*: CTST is delivering a complete integrated system allowing the department to: plan and schedule the verification activities and the evaluation activities; track issues, actions, tasks, decisions; track physical and/or electronic documents and track the inspection packages.
- *SSDH Reporting Database Management (€0.115 million) – (CIP)*: It implements reporting solutions on Nuclear Material Reported in NPT and Non NPT and Voluntary Reporting Scheme.
- *BSS – Travel Report Processing 2 (€0.110 million) – (Completed)*: It is a project to deliver version 2 of the Travel Report Processing System (TRP2), also known simply as Travel Reports 2. TRP2 will replace version 1 of the system (TRP1), which has several technical and usability problems that are being addressed by the new version.
- *ICO Virtual Air Gap (€0.100 million) – (CIP)*: It is a secure methodology to access the Integrated Safeguards Environment (ISE) for the current Safeguards LAN.

NOTE 14: Accounts payable

	(expressed in euro'000s)	
	31-12-2011	01-01-2011
		(Restated)
Accruals	11 782	32 604
Staff	555	417
Other payables	2 226	263
Total accounts payable	14 563	33 284

141. Accruals represent the amount of goods and services delivered for which the invoices were not received by the reporting date. Accruals at the beginning of the year were high primarily due to a single large procurement related to a technical cooperation project for transporting spent nuclear fuel of Vinča RA Research Reactor from Serbia to the Russian Federation that was completed in December 2010, but the payments for the same were made in 2011.

142. Other payables primarily represent the amount of invoices processed but not paid as on the reporting date.

NOTE 15: Deferred revenue

	(expressed in euro'000s)	
	31-12-2011	01-01-2011
		(Restated)
Contributions received in advance	31 495	70 216
Extrabudgetary contributions transferred subject to conditions	25 663	1 077
Other	3 627	2 669
Total deferred revenue	60 785	73 962
 Deferred revenue composition		
Current	35 122	72 885
Non-current	25 663	1 077
Total deferred revenue	60 785	73 962

143. Contributions received in advance, at the end of the year, primarily includes regular budget assessed contributions received in advance, as well as extra-budgetary contributions received from Member States that have not been formally accepted by the Agency. The balance at the beginning of the year primarily consisted of advance contributions for the setting up of the IAEA LEU Bank. Substantial parts of these contributions have been accepted during the year, and accordingly recognized as revenue.

144. In accordance with IPSAS 23, Revenue from non-exchange transactions, contributions received from donors, but subject to conditions, have been classified under deferred revenue. At the end of 2011, most of the contributions received subject to conditions were from a non-Member State donor. These will be recognized as revenue, as and when the conditions are satisfied. Since these are all multi-year projects, they have been classified as non-current.

145. 'Other' includes the funds received in advance to fund cost-free experts from a donor.

146. IPSAS 23 requires that on first time implementation of IPSAS, the entity should identify the revenue recognized in prior years on cash basis, but which was subject to conditions, and accordingly make an adjustment to the opening balances by recording such amounts in deferred revenue. However, the Agency has found it impracticable to collect such information for prior years, as historically, information was not captured in a way that would allow a reliable estimate to be made of the amount that should be recorded as deferred revenue.

NOTE 16: Employee benefit liabilities

	(expressed in euro'000s)	
	31-12-2011	01-01-2011 (Restated)
After-service health insurance	111 182	106 033
Post-employment repatriation and separation entitlements	43 263	44 517
Annual leave	16 924	14 912
Health Insurance Premium reserve account - staff contributions	957	793
Accrued salaries	389	75
Other staff costs	2 413	1 837
Total employee benefit liabilities	175 128	168 167
 Composition of employee benefit liabilities		
Current	13 230	13 104
Non-current	161 898	155 063
Total employee benefit liabilities	175 128	168 167

147. Liabilities for after-service health insurance, post-employment repatriation and separation entitlements, and annual leave have been recognized on the basis of actuarial valuation.

148. Liabilities for other staff costs as on 31 December 2011 consist of primarily home leave accruals €1.286 million and accruals for compensatory time-off € 0.956 million. Liabilities for other staff costs as at the beginning of the year (restated) are primarily comprised of home leave accruals €1.096 million and accruals for compensatory time-off €0.622 million.

NOTE 17: Post employment related plans

149. Post-employment related benefits include After-Service Health Insurance (ASHI), repatriation and separation benefits. These employee benefits are recorded as a liability and determined by professional actuaries based on personnel data and past payment experience.

150. The IAEA operates the ASHI scheme which is a defined employee benefit plan. Under the scheme and in accordance with the Staff Regulations and Rules, retirees of the Agency are eligible to obtain medical insurance through the Agency.

151. Repatriation and Separation benefits are entitlements that staff members of the Agency are eligible to receive on separation from the service of the Agency. These include a repatriation grant and the related travel and removal costs on separation from the Agency, as well as end of service allowance that certain general service staff members are entitled to, and which are based on length of service.

Actuarial valuations

152. Liabilities arising from ASHI, and repatriation and separation benefits are determined by consulting actuaries. Actuarial assumptions are required to be disclosed in the financial statements in accordance with IPSAS 25 Employee Benefits. The following assumptions and methods have been used to determine the value of post-employment and other separation-related employee liabilities for IAEA as at 31 December 2011:

Assumptions for ASHI

Discount rate	4.20% - Market yields on high quality euro corporate bonds on the reporting date
Expected rate of salary increase	3.00%
Expected rate of medical cost increase	3.0-4.40% (range for the various plans)

Assumptions for other post-employment repatriation and settlement entitlements

Discount rate	4.00% - Market yields on high quality euro corporate bonds on the reporting date
Expected rate of salary increase	3.00%
Expected decrease in travel costs	3.00%

153. The following table provides additional information and analysis on the employee benefit liabilities calculated by the actuary.

	(expressed in euro'000s)	
	After service health 31-12-2011	Post-employment 31-12-2011
Movement in defined benefit obligation comprises:		
Opening defined benefit obligation	106 033	44 517
Current service cost	5 790	5 287
Interest cost	4 557	1 636
Contributions from plan participants	2 841	-
Actuarial losses/(gains) recognized in net assets	(2 926)	(3 587)
Benefits paid	(5 113)	(4 590)
Closing defined benefit obligation	111 182	43 263
Expense for the period comprises:		
Current service cost	5 790	5 287
Interest cost	4 557	1 636
Total expense for the period	10 347	6 923

154. Actuarial gains or losses arise when the actuarial assessment differs from the long term expectations on the obligations. They result from experience adjustments (differences between the previous actuarial assumptions and what has actually occurred) and the effects of change in actuarial assumptions.

155. Actuarial gains or losses relating to the ASHI and post-employment repatriation and separation obligations are accounted for using the 'reserve recognition' approach, and are recognized through net assets/equity in the Statement of Financial Position and in the Statement of Changes in Net Assets/Equity in the year in which they occur. For 2011, actuarial gains recognized directly in net assets/equity for ASHI and post-employment repatriation and separation entitlements were €2.926 million and €3.587 million respectively.

Sensitivity analysis

156. If the assumptions described above were to change, as per the actuarial report, this would impact the measurement of defined benefit obligations and current service and interest cost as per the table below:

		(expressed in euro'000s)	
Impact of change in assumptions:	Change	After Service Health Insurance	Post-employment repatriation and separation entitlements
Effect of discount rate change on defined benefit obligation	+ 1%	(18 631)	(2 882)
	- 1%	24 757	3 295
Effect of change in expected rate of medical costs on:			
- current service cost and interest cost component of liability	+ 1%	2 778	n/a
	- 1%	(2 067)	n/a
- total defined benefit obligation	+ 1%	23 940	n/a
	- 1%	(18 404)	n/a
Effect of increase in salaries (1%), shipping (5%) and travel costs (2%) on:			
- total defined benefit obligation		n/a	4 567
Effect of decrease in salaries (1%), shipping (5%) and travel costs (2%) on:			
- total defined benefit obligation		n/a	(3 657)

157. The Agency's best estimate of contributions expected to be paid for the next 12 months for After Service Health insurance plans is €2.349 million, and for post-employment repatriation and separation entitlements is €5.080 million.

United Nations Joint Staff Pension fund

158. The latest actuarial valuation for the UNJSPF prepared at 31 December 2009 reported for 2011 a fund assets to fund liabilities ratio of 98.9% (2010 100.1%)

159. During 2011, contributions paid to UNJSPF amounted to €44.1 million (2010 €44.4 million). Expected contributions due in 2012 are €46.8 million.

NOTE 18: Other financial liabilities

	(Expressed in €'000)	
	31-12-2011	01-01-2011 (Restated)
Balances held for future refund (unspent funds)	409	411
Other	585	815
Total other financial liabilities	994	1 226

160. Balances held for future refund represent the surplus from closed projects, pending decision from the donor on how to utilize them.

NOTE 19: Provisions

161. In February 2012, the Administrative Tribunal of the International Labour Organisation (ILOAT) gave a ruling against the Agency in respect of two appeals cases filed by former Agency staff members. Based on these decisions, the Agency will be required to make payments of approximately €0.201 million to the former staff members in 2012. Therefore, a provision for this amount has been recorded during 2011.

NOTE 20: Movements in fund balances

(expressed in euro'000s)

	Regular Budget Fund and Working Capital Fund	Technical Cooperation Fund	Extrabudgetary Programme Fund	Technical Cooperation Extrabudgetary Fund	Trust Funds Reserve Funds and Special Funds	Total
Opening balance	(70 528)	24 544	79 186	17 501	3 853	54 556
Transfers to / (from) fund balances	(18 415)	(4 830)	1 529	1 820	(1 350)	(21 246)
Net surplus/ (deficit)	7 572	13 373	127 882	2 081	(197)	150 711
Closing balance	(81 371)	33 087	208 597	21 402	2 306	184 021
Included in fund balances are individual funds with specific purposes:						
Working Capital Fund	15 210	-	-	-	-	15 210
Major Capital Investment Fund	7 993	-	-	-	-	7 993
Nuclear Security Fund	-	-	25 287	-	-	25 287
Research Institute Trust Fund	-	-	-	-	972	972
Equipment Replacement Fund	-	-	-	-	1 308	1 308
IAEA Nobel Cancer and Nutrition Special Fund	-	-	-	-	26	26

162. The Working Capital Fund was established in accordance with the Financial Regulations to be used for advances to the Regular Budget Fund to finance temporarily appropriations and for other purposes authorized by the General Conference. The Working Capital Fund level is approved by the General Conference and funded by Member State advances made in accordance with their respective base rates of assessment as determined by the General Conference. Each advance is carried to the credit of the respective Member State.

163. The Major Capital Investment Fund (MCIF) is a Reserve Fund established by the Board of Governors in accordance with the Financial Regulations to support major infrastructural investments (GOV/2009/1). The MCIF can be funded by the capital portion of the Regular Budget appropriations, or through other sources such as year-end savings from the operational portion of the Regular Budget appropriations.

164. The Nuclear Security Fund was established in accordance with Financial Regulations to fund a range of activities with the objective of supporting the capacity of Member States to protect nuclear facilities, and nuclear material in use, storage or transport, against nuclear terrorism (GOV/2002/10).

165. The Research Institute Trust Fund was established in accordance with Financial Regulations to enable multi-year funding availability for the purchase of equipment and supplies necessary for the Agency's research contract programme (GOV/2403).

166. The Equipment Replacement Fund was established as approved by the Board of Governors (GOV/2005/22).

167. The IAEA Nobel Cancer and Nutrition Special Fund was established in accordance with Financial Regulations to apply the Agency's share of the 2005 Noble Peace Prize monetary award for the purposes of human resource development (through fellowships and training) in developing countries in applying nuclear techniques to the areas of cancer management and nutrition (GOV/2005/86).

NOTE 21: Movements in the Fund Balances of individual funds with specific purposes

(expressed in euro'000s)

	Opening balance as at 1 January 2011	Revenue	Transfers to / (from)	Expense	Closing balance as at 31 December 2011
Working Capital Fund	15 210	-	-	-	15 210
Major Capital Investment Fund	10 906	-	(1 824)	(1 089)	7 993
Nuclear Security Fund	19 431	19 137	(1 129)	(12 152)	25 287
Research Institute Trust Fund	1 066	289	(200)	(183)	972
Equipment Replacement Fund	2 761	-	(1 151)	(302)	1 308
IAEA Nobel Cancer and Nutrition Special Fund	26	-	-	-	26

Note 22 (continued)

	(Expressed in euro'000s)					
	Regular Budget Fund and Working Capital Fund	Technical Cooperation Fund	Extrabudgetary Programme Fund	Technical Cooperation Extrabudgetary Fund	Trust Funds Reserve Funds and Special Funds	Total
Cash surpluses reserve opening balance	(86)	-	-	-	-	(86)
Transfers to / (from)	2 307	-	-	-	-	2 307
Cash surpluses reserve closing balance	2 221	-	-	-	-	2 221
Commissary working capital reserve opening balance	809	-	-	-	-	809
Transfers to / (from)	-	-	-	-	-	-
Commissary working capital reserve closing balance	809	-	-	-	-	809
Investment Revaluation Reserve opening balance	-	-	2	1	-	3
Transfers to / (from)	-	(2)	(13)	(1)	-	(16)
Investment Revaluation Reserve closing balance	-	(2)	(11)	-	-	(13)
Reserve for actuarial gains/losses on employee benefit liabilities opening balance	-	-	-	-	-	-
Transfers to / (from)	6 384	-	129	-	-	6 513
Reserve for actuarial gains/losses on employee benefit liabilities closing balance	6 384	-	129	-	-	6 513

168. The reserve for MCIF represents savings and unused balances from the annual budget appropriations identified in accordance with GC(53)5 and GC(55)5 to be transferred to the Major Capital Investment Fund to support major capital investments.

169. The health insurance premium reserve represents the Agency's share of the funds held by Van Breda related to health insurance premiums. During the reporting period, the reserve increased by €0.164 million primarily due to the excess of payments made over the premiums due.

170. Commitments represent committed funds for open contracts for goods and services which have not been received by the Agency. During the reporting period, such future commitments increased by €5.47 million. This increase is shown as a transfer to reserves from fund balances.

171. The foreign exchange revaluation reserve represents the unrealized exchange rate gains accumulated till last year on currencies held in various current or deposit bank accounts as well as unrealized exchange gains as a result of revaluation of balance sheet accounts of the Agency. These balances were transferred to the reserve for MCIF for RB Fund and Fund Balances for other fund groups for the yearend.

172. The cash surpluses reserve represents the 2010 cash surplus of €2.026 million and cash surpluses of prior years in the amount of €0.195 million that were withheld pending receipt of contributions from the Member States.

173. The Commissary working capital reserve represents the amount of Agency's initial capital investment in the Commissary, which was provided in equal shares by the IAEA and UNIDO. The amount of investment from each organization was €0.809 million.

174. The investment revaluation reserve is used to record the difference between the market price and the carrying cost of investments held by the Agency on the reporting date. During the reporting period, the reserve decreased by €0.016 million due to the market price of the Treasury bills held by the Agency being lower than their carrying cost.

175. The liabilities arising from post-employment benefits and other long-term employee benefits are determined by independent actuaries. The reserve for actuarial gains/(losses) on employee benefit liabilities represents the balance of actuarial gains or losses relating to the ASHI and post-employment repatriation and separation benefit obligations. During the reporting period, a total of €6.513 million actuarial gain was recorded (refer to Note 17).

NOTE 23: Voluntary Contributions

	(expressed in euro'000s)
	31-12-2011
<i>Voluntary monetary contributions</i>	
Technical cooperation fund	57 628
Extrabudgetary contributions	171 641
Refunds of unspent contributions	(880)
<i>Total voluntary monetary contributions</i>	228 389
<i>Voluntary in-kind contributions</i>	
Lease of premises	1 442
Other	445
<i>Total voluntary in-kind contributions</i>	1 887
Total voluntary contributions	230 276

176. Voluntary contributions consist of monetary and in-kind contributions. In-kind contributions comprise primarily the use of the Monaco premises for no rent, free utilities and maintenance, and the use of land at Seibersdorf (Austria) premises, provided on a nominal lease to the Agency. The contribution values are based on the fair rental value of similar premises. In these cases, an in-kind contribution is recognized as revenue, and a corresponding expense is also recognized. Other in-kind contributions include PPE and Intangibles donated to the Agency.

NOTE 24: Other Contributions

	(expressed in euro'000s)
	31-12-2011
National participation costs	165
Safeguard agreements	245
Total other contributions	410

NOTE 25: Revenue from exchange transactions

	<u>(expressed in euro'000s)</u>
	<u>31-12-2011</u>
<i>Revenue from sale of goods</i>	
Publications	326
Laboratory reference materials	298
	<u>624</u>
<i>Revenue from jointly financed services</i>	
Medical	692
Data processing	641
Printing	526
Financial	167
Housing	39
	<u>2 065</u>
<i>Other miscellaneous revenue</i>	<u>574</u>
Total revenue from exchange transactions	<u><u>3 263</u></u>

177. Revenue from jointly financed services includes receipts for services rendered to other UN system organizations on cost reimbursement basis for various services.

178. Other miscellaneous revenue includes refunds of expenditures charged to previous fiscal periods, refund of maternity leave from social security, and other sundry credits.

NOTE 26: Interest revenue

	<u>(expressed in euro'000s)</u>
	<u>31-12-2011</u>
Term deposits	1 245
Treasury Bills	73
Money market funds and others	246
Total interest revenue	<u><u>1 564</u></u>

NOTE 27: Net gains

	(expressed in euro'000s)
	31-12-2011
Unrealized foreign exchange gains/(losses)	6 029
Realized foreign exchange gains/(losses)	1 190
Gains/(losses) on sale or disposal of property, plant and equipment	(18)
Total gains	7 201

179. Net unrealized foreign exchange gains are mostly due to the translation of the Agency's cash and investment holdings in US dollars, and the related appreciation in the US dollar vis-à-vis the euro during the year.

NOTE 28: Staff costs

	(expressed in euro'000s)
	31-12-2011
<i>Professional staff</i>	
Fixed term salaries	104 629
Temporary assistance salaries	1 530
Common staff costs: contributions to UNJSPF and other pension schemes	19 804
Common staff costs: other	25 347
<i>Total professional staff</i>	151 310
<i>General services staff</i>	
Fixed term salaries	47 102
Temporary assistance salaries	2 236
Common staff costs: contributions to UNJSPF and other pension schemes	9 999
Common staff costs: other	21 320
<i>Total general services staff</i>	80 657
Total staff costs	231 967

180. Staff costs include salaries, post adjustments, entitlements, pensions and health plan contributions for Professional and General Service category staff. Also included are staff travel expenses which form part of staff entitlements and are not related to duty travel (home leave, family visit, education grant, interview, separation etc.).

NOTE 29: Travel

	(expressed in euro'000s)
	31-12-2011
Staff travel	
Duty travel staff	10 310
Safeguards inspection and equipment maintenance	5 109
Total staff travel	15 419
Non-staff travel	
For technical cooperation projects	14 762
Consultants	7 652
Other non-staff	4 714
Total non-staff travel	27 128
Total travel expenses	42 547

181. Duty travel staff represents the regular duty travel of staff on various missions, such as technical meetings, research coordination meetings, liaison meetings, emergency assistance, conferences/symposia and project travel.

NOTE 30: Transfers to development counterparts

	(expressed in euro'000s)
	31-12-2011
Project inventories distributed to development counterparts	22 001
Research and technical contracts	3 301
International Centre for Theoretical Physics funding	2 445
Other grants	248
	27 995

182. Project inventories encompass all goods, i.e. equipment, supplies and software that are procured by the Agency and transferred to recipient Member and non-Member States. The transfer of these project inventories, also known as 'field procurement', takes place mostly under the TC Programme, but also directly within the technical divisions in the framework of specific assistance programmes.

These project inventories are expensed when they clear the customs in the recipient country, which is considered the point at which the Agency transfers control over such inventories to the recipients.

183. Research and technical contracts are awarded to the institutes in the Member States to perform research work or technical services.

NOTE 31: Buildings management and security services

	(expressed in euro'000s)
	31-12-2011
Buildings management services VIC	9 020
Buildings management services non-VIC	2 558
Security services VIC	7 538
Security services non-VIC	97
	19 213

184. Buildings management services VIC and Security Services VIC represent the IAEA's share of expenditure of these Common Services being operated by other VBOs. Buildings Management Services is a jointly-controlled operation being operated by UNIDO and responsible for the maintenance and upkeep of the VIC premises. UN Security Services is a jointly-controlled operation being operated by UNOV and responsible for the security at the VIC premises.

185. Building management services non-VIC represent the Agency's expenditure on the maintenance of its offices other than the VIC Headquarters, primarily Seibersdorf, Toronto, Tokyo, New York and Geneva.

NOTE 32: Training

	(expressed in euro'000s)
	31-12-2011
Training of development counterparts	13 238
Training - staff	2 017
	15 255

186. Training of development counterparts includes stipends, tuition, travel, training fees and other training related costs.

NOTE 33: Other operating expenses

	<u>(expressed in euro'000s)</u>
	<u>31-12-2011</u>
Supplies and materials	7 204
Information technology contractual services	5 107
Scientific and technical contractual services	3 828
Other institutional contractual services	3 194
Equipment and software maintenance	4 720
Purchase of minor equipment and software	4 209
Communication and transport	3 156
Leased equipment	1 492
Interpretation services	1 121
Increase/(decrease) in provisions and allowances	553
Representation and hospitality	443
Printing supplies, Safeguards spare parts and maintenance materials inventory consumption	175
Impairment of property, plant and equipment	2
Other operating expenses	4 714
Total other operating expenses	<u>39 918</u>

187. Supplies and materials mainly comprise of scientific and technical supplies, and also include office and communication materials and supplies.

188. Information technology contractual services primarily comprise of expenses for support of AIPS, and other support services.

189. Other institutional contractual services are expenses primarily related to translation, medical and other services.

190. Purchase of minor equipment and software relates to the expenses incurred on purchase of items of equipment and software that do not meet the capitalization criteria.

191. Other operating expenses primarily relate to general lab utility costs.

NOTE 34: Share of surplus in common services entities

	(expressed in euro'000s)
	31-12-2011
Share of surplus in Commissary	498
Share of surplus in Catering Services	36
Total share of surplus in common services entities	534

192. Commissary and Catering Services are common services that have been deemed to be jointly controlled by the VBOs (refer to Note 11). The above represents IAEA's share in the net surplus earned by the Commissary and Catering Services during 2011 on the basis of BMS cost sharing ratio for 2011, i.e. 53.804%.

NOTE 35: Segment reporting by major programme - composition by fund

for the period ending 31 December 2011
(expressed in euro'000s)

	Nuclear Power, Fuel Cycle and Nuclear Science	Nuclear Techniques for Development and Environmental Protection	Nuclear Safety and Security	Nuclear verification	Policy, Management and Administration ^{a/}	Expenses not charged to major programmes	Eliminations	Total
Regular Budget								
Expense	30 711	34 956	30 881	112 183	97 785	2 282	-	308 798
PPE and Intangibles	482	1 876	948	19 444	15 717	1 211	-	39 678
Additions PPE and Intangibles	452	1 206	744	5 947	1 688	1 142	-	11 179
Technical Cooperation Fund								
Expense	6 094	22 529	11 159	1	6 212	353	-	46 348
PPE and Intangibles	2	1	-	-	-	-	-	3
Additions PPE and Intangibles	-	36	3	-	-	-	-	39
Extrabudgetary Programme Fund								
Expense	4 700	3 094	21 304	9 550	2 834	-	-	41 482
PPE and Intangibles	-	273	122	13 387	459	-	-	14 241
Additions PPE and Intangibles	-	278	133	14 238	501	-	-	15 150
Technical Cooperation Extrabudgetary Fund								
Expense	3 641	2 955	4 283	-	185	-	-	11 064
PPE and Intangibles	-	-	-	-	-	-	-	-
Additions PPE and Intangibles	-	-	-	-	-	-	-	-
Trust Funds, Reserve Funds and Special Funds								
Expense	-	176	7	-	286	-	-	469
PPE and Intangibles	-	3	-	-	194	-	-	197
Additions PPE and Intangibles	-	4	-	-	151	-	-	155
Total Expense	45 146	63 710	67 634	121 734	107 302	2 635	(3 896)	404 265
Total PPE and Intangibles	484	2 153	1 070	32 831	16 370	1 211	-	54 119
Total Additions PPE and Intangibles	452	1 524	880	20 185	2 340	1 142	-	26 523

^{a/} Includes Management of Technical Cooperation for Development

NOTE 36: Budget

193. The Regular Budget Fund is established for the purpose of accounting for the expenditure of the Regular Budget appropriation. Regular Budget appropriations are available for obligation during the financial period to which they relate and, obligated, for expenditure, for a further twelve months. Regular budget appropriations are budgeted in accordance with the Agency's planned programme of work, in six major programmes (MPs). Some of the major programmes cover scientific and technical fields. This is the case for:

- MP1: Nuclear Power, Fuel Cycle and Nuclear Science;
- MP2: Nuclear Techniques for Development and Environmental Protection;
- MP3: Nuclear Safety and Security;
- MP4: Nuclear Verification.

194. Other major programmes address the managerial and administrative functions that provide the enabling environment to the scientific and technical programmes as well as to the technical cooperation (TC) programme. These are:

- MP5: Policy, Management and Administration Services;
- MP6: Management of Technical Cooperation for Development.

195. The Regular Budget consists of an operational and capital component, the latter to fund major capital investments that meet one or more of the following criteria:

- (a) Are of a compelling priority.
- (b) Have a useful life in excess of one financial period (year).
- (c) Have a total value throughout their lifespan of €200 000 or more.
- (d) Are of a major infrastructure nature (e.g. buildings, major IT backbone systems, and other infrastructure such as the Agency-wide Information System for Programme Support (AIPS)).
- (e) Are major expenditures of a one-off or infrequent nature which would cause significant distortion to levels of the operational portion of the regular budget. Partial tranches/instalments could be provided over several years in order to avoid spikes in funding requirements in the regular budget in any one period.

NOTE 36a: Movements between original and final budgets (Regular Budget)

196. Each year, the General Conference approves a budget for the Agency which is allocated in appropriation sections. The Director General may incur expenditure within the limits stated in the appropriation sections and for the purposes for which they are voted. He cannot make transfers between any of the sections without the prior approval of the Board of Governors. The amount in each section comprises a euro component and a US dollar component expressed as a euro equivalent on the basis of the average US dollar-to-euro United Nations Rate of Exchange experienced during the budget year. Therefore, the authority granted by the General Conference, expressed in euro, can only be determined at the end of the budget year.

197. Movements between the original and the final budgets for the Regular Budget Fund are given below:

for the period ending 31 December 2011

(expressed in euro'000s)

	Approved budget	Revalued budget a/	Authorized transfers b/	Final budget
Operational portion				
MP1-Nuclear Power, Fuel Cycle and Nuclear Science	32 255	30 297	(7)	30 290
MP2-Nuclear Techniques for Development and Environmental Protection	37 089	35 123	(38)	35 085
MP3-Nuclear Safety and Security	31 041	29 137	114	29 251
MP4-Nuclear Verification	123 144	115 948	(56)	115 892
MP5-Policy, Management and Administration	78 098	74 746	(4)	74 742
MP6-Management of Technical Cooperation for Development	18 774	17 782	(9)	17 773
Total Agency programmes	320 401	303 033	-	303 033
Reimbursable work for others	2 999	2 808	-	2 808
Total Regular Budget operational portion	323 400	305 841	-	305 841

	Approved budget	Revalued budget a/	Authorized transfers	Final budget
Capital portion				
MP2-Nuclear Techniques for Development and Environmental Protection	919	919	-	919
MP4-Nuclear Verification	3 631	3 631	-	3 631
MP5-Policy, Management and Administration	3 567	3 517	-	3 517
Total Regular Budget capital portion	8 117	8 067	-	8 067

Note a/: General Conference Resolution GC(54)RES/3 of September 2010 - revalued at the UN average rate of \$1.3893 to €1.

Note b/: Based on the decision of the Board of Governors on document (GOV/1999/15) an amount of €0.114 million was transferred to Major Programme 3 "Nuclear Safety and Security" in order to cover the cost of emergency assistance provided in Japan subsequent to the Fukushima Daiichi nuclear power accident. To recover this amount, year-end unencumbered balances in the operational portion of the 2011 Regular Budget Appropriation Sections were used.

NOTE 36b: Reconciliation between the actual amounts on comparable basis and the cash flow statement

198. As required under IPSAS 24 Presentation of Budget Information in Financial Statements, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to net cash flows from operating,

investing and financing activities, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

199. The reconciliation between the actual amounts on a comparable basis in the Comparison of Budget and Actual Amounts and the actual amounts in the Cash Flow Statement for the period ended 31 December 2011 is presented below:

	<u>(expressed in euro'000s)</u>		
	<u>Operational</u>	<u>Investing</u>	<u>Financing</u>
Current year budget results (Statement Va and Vb - variances)	3 779	-	-
Basis Difference	30 169	-	-
Presentation Difference	16 241	(16 347)	106
Entity Difference	85 083	(19 267)	(113)
Actual Amount in the Statement of Cash Flows	135 272	(35 614)	(7)

200. **Basis differences** capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the Cash Flow Statement, the non-cash elements such as unliquidated obligations, payments against prior year obligations and outstanding assessed contributions are included as basis differences.

201. **Timing differences** occur when the budget period differs from the reporting period reflected in the financial statements. For the purposes of comparison of budget and actual amounts, there are no timing differences for the Agency.

202. **Presentation differences** are differences in the format and classification schemes in the Statement of Cash Flow and the Statement of Comparison of Budget and Actual Amounts.

203. **Entity differences:** represent cash flows of fund groups other than the Regular Budget Fund that are reported in the Financial Statements. The Financial Statements include results for all Fund Groups.

NOTE 36c: Budget to Actuals variance analysis

204. The Agency as a whole expended €300.12 million from the operational portion of 2011 regular budget appropriations for a resource utilization rate of 99.0%, with €2.91 million remaining unutilized. Considering the challenges of AIPS implementation in 2011, this positive outcome is remarkable. Total carry over available at the end of 2010 was €10.69 million, out of which €2.08 million was transferred to the Major Capital Investment Fund in accordance with General Conference Resolution GC(55)/5. Of the remaining €8.61 million that was carried over to 2011 from 2010, €6.03 million were expended for a utilization rate of 70.1%. The combined usage rate of the operational portion of 2011 regular budget plus carry over was 98.2%. At year end, the remaining total regular budget balance of €5.48 million (2011 unutilized plus carry over unutilized) was transferred to the Major Capital Investment Fund. A breakdown by major programme follows:

205. **In Major Programme 1**, Nuclear Power, Fuel Cycle and Nuclear Science, €30.12 million were expended from the regular budget for 2011 for a resource utilization rate of 99.4%, with €0.17 million remaining unutilized. Of the €1.42 million that was carried over to 2011 from 2010, €1.39 million were expended for a utilization rate of 97.7%. The combined usage rate of 2011 regular budget plus carry over was 99.4%. At year end, the remaining total regular budget balance (2011 unutilized plus

carry over unutilized) of €0.2 million was transferred to the Major Capital Investment Fund. Major Programme 1 implemented its activities as planned, as evidenced by the high combined usage rate.

206. **In Major Programme 2**, Nuclear Techniques for Development and Environmental Protection, €34.1 million were expended from the regular budget during 2011 for a resource utilization rate of 97.2%, with €0.99 million remaining unutilized. Of the €0.15 million carried over to 2011 from 2010, €0.14 million were expended for a utilization rate of 92.0%. The combined usage rate of 2011 regular budget plus carry over was 97.2%. At year end, the remaining total regular budget balance (2011 unutilized plus carry over unutilized) of €1.0 million was transferred to the Major Capital Investment Fund. The main reason for MP2's 97.2% regular budget utilization rate in 2011 was difficulty in hiring technically qualified professional staff for vacant posts including unforeseen vacancies due to early retirement or resignation of staff.

207. **In Major Programme 3**, Nuclear Safety and Security, €29.3 million were expended from the regular budget during 2011 for a resource utilization rate of 100%. The implementation rate of the €0.23 million carried over to 2011 from 2010 was 100%. Full utilization in MP3 reflects not only that activities were implemented as planned, but also that any remaining resources were consumed by needs associated with the Fukushima Daiichi accident. Additionally, in accordance with GOV/1999/15, €0.114 million was transferred to MP3 to assist in meeting the needs resulting from the Fukushima Daiichi accident.

208. **In Major Programme 4**, Nuclear Verification, € 114.79 million were expended from the regular budget during 2011 for a budget utilization of 99.1%, with € 1.11 million remaining unutilized. From the € 4.41 million carried over to 2011 from 2010, € 2.1 million were expended for a utilization rate of 47.5%. The combined usage rate of 2011 regular budget plus carry over was 97.2%. At year-end the total remaining unutilized balance of € 3.42 million was transferred to the Major Capital investment Fund to partially fund the needs for the ECAS and the Integrated Analysis projects. The main reason for the under-utilization in the carry-over from 2010 is due to delays in the implementation of the project 'IAEA Safeguards Information System (ISIS) re-engineering'.

209. **In Major Programme 5**, Policy, Management and Administration Services, regular budget expenditures in 2011 totalled €74.28 million. This represented an implementation rate of 99.42%. A sum of €0.47 million (0.58%) was unutilized. From the € 1.97 million carried over to 2011 from 2010, €1.81 million were expended for a utilization rate of 91.75%. The combined usage rate of 2011 regular budget plus carry over was 99.2%. Major Programme 5 implemented its activities in support of the technical major programmes as planned.

210. **In Major Programme 6**, Management of Technical Cooperation for Development, € 17.6 million were expended from the regular budget during 2011 for a utilization rate of 99.0%, with €0.18 million remaining unutilized. While from funds carried over to 2011 from 2010, € 0.37million were expended for a utilization rate of 88.4% with € 0.05 million remaining unutilized. The combined usage rate of 2011 regular budget plus carry over was 98.8%. Activities in Major Programme 6 were implemented as planned.

211. Regarding the **Capital** appropriation of Regular Budget, €7.08 million was expended from the allotted total of €8.07 million, representing an implementation rate 87.8%. This included:

- In MP2, €0.919 million were allotted, of which €0.176 million (19.2%) was utilized. Capital fund usage in MP2 was low due to delays in purchasing equipment for the Seibersdorf and Monaco laboratories. These purchases are in process.
- In MP4, €3.63 million were allotted, of which €3.45 million (95.1%) were utilized. All funds were for Enhancing Capabilities of the Safeguards Analytical Services (ECAS). A balance of €0.177 million remained available for ECAS at year end.
- In MP5 €3.52 million were allotted and €3.45 million (98.2%) were utilized. This included €1.89 million utilized for the Agency-wide Information System for Programme Support (AIPS). At year end AIPS had an unused balance of about €0.03 million. Of the roughly €0.1 million allotted for the implementation of International Public Sector Accounting Standards (IPSAS), about €0.06 million was utilized. Finally, €1.0 million was obligated for Buildings Management Services (BMS), and €0.5 million was utilized for the Agency's share of M Building costs.

NOTE 36d: Major Capital Investment Fund – Budgetary Results

	(Expressed in euro'000s)		
	Reserve for MCIF	Capital Portion in the Regular Budget	Total
Resources:			
Opening balance 1 January 2011	11 252	8 067	19 319
Expenditure:			
MP2-Nuclear Techniques for Development and Environmental Protection	(2)	176	174
MP4-Nuclear Verification	297	3 454	3 751
MP5-Policy, Management and Administration	2 896	3 452	6 348
Total expenditure	3 191	7 082	10 273
Unallocated balance 31 December 2011	8 061	985	9 046

NOTE 37: Related Parties

Key management personnel

212. Key management personnel are the Director General and the six Deputy Directors General, as they have authority for planning, directing and controlling the activities of the Agency (or significant parts thereof).

213. The aggregate remuneration paid to key management personnel includes: net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel remuneration incorporates housing allowances and representation allowances paid as part of salaries despite a representative aspect to these allowances being present.

(expressed in euro'000s)

	Number of individuals	Compensation and post adjustment	Entitlements	Pension and health plans	Total remuneration	Outstanding advances against entitlements	Outstanding loans
Key Management Personnel	7	1 136.6	299.0	238.9	1 674.5	6.5	-

214. No close family member of the key management personnel was employed by the Agency during the year.

215. Advances are those made against entitlements in accordance with staff rules and regulations. Advances against entitlements are widely available to all IAEA staff.

NOTE 38: Financial Instrument Disclosures

216. All financial assets and liabilities are designated as amortized cost with the exception of Treasury Bills, which are designated as available for sale. Given the short term nature of the Agency's financial assets and liabilities, their carrying value represents a reasonable estimate of their fair value.

217. The Agency's activities expose it to credit risk, liquidity risk, currency risk, and interest rate risk. Detailed information on the Agency's management of each of these risks and related exposures are provided in the following sections. From an overall perspective the Agency's investment management objective prioritizes capital preservation as its primary objective, ensuring sufficient liquidity to meet cash operating requirements, and then earning a competitive rate of return on its portfolio within these constraints. Capital preservation and liquidity are emphasized over the rate of return. Currently, no investment can be longer than one year.

a) Credit Risk Management

218. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to IAEA. The carrying value of financial assets equates to the maximum exposure to credit risk as at balance date.

219. To manage credit risk relating to investment of cash, the Agency has an investment policy that restricts investments to particular types of financial instruments along with investment ceilings per issuer depending on the credit quality of the issuer. Credit risk relating to management of accounts receivable is discussed further in Note 8.

Agency policy on allowable financial instruments		Carrying value of cash, cash equivalents and investments a/ (expressed in euro'000s)	
Issuer	Credit quality b/	31-12-2011	01-01-2011 (Restated)
<u>Government</u> debt less than one year	AAA	87 800	78 502
Bank for International Settlements	AAA	91 211	76 893
Government money market funds	AAA mmf	42 670	48 310
Commercial bank short term deposits	a and up	162 456	72 898
Commercial bank short term deposits	a-	15 100	8 800
Commercial bank short term deposits	bbb+	5 600	-
		404 837 c/	285 403

a/ Excluding imprest accounts and cash in bank current accounts

b/ Credit quality is expressed as the long term rating for issuers, with the following exceptions:

- Credit quality for commercial banks is expressed as Fitch viability ratings.
- Credit quality for Government money market fund is expressed by the money market fund scale.
- Bank for International Settlements has not been rated by a Rating Agency, however, its debt trades at AAA levels due to the special status of this institution, which is the bank of central banks around the world.

c/ 51.2% of the balance at year-end was denominated in euros and 48.8% was denominated in US dollars.

220. The following table gives the details of exposures over €25 million to a single issuer:

Issuer	Industry	Carrying value (expressed in euro'000s)	
		31-12-2011	01-01-2011 (Restated)
United States of America	Government	57 814	78 502
Bank for International Settlements	Financial Institution (central banks)	91 211	76 893
JP Morgan Asset Management	Government money market funds	42 670	48 310
JP Morgan Chase Bank	Financial Institution	29 882	29 295
French Republic	Government	29 986	-
Rabobank	Financial Institution	26 908	-
Total		278 471	233 000

a/ The underlying credit risks of the Government money market fund issued by JP Morgan Asset Management (Europe) are the different instruments held by this money market fund which are composed of highly rated European government papers plus reverse repos over-collateralized by highly-rated European government debt.

b) Currency risk management

221. The Agency undertakes transactions denominated in foreign currencies and must therefore manage its exposure to exchange rate fluctuations. The Agency's general strategy for managing exchange rate risk is to ensure that revenues are received or converted in the market in the same currencies as anticipated expenses; the principal mechanisms being the split assessment system for the Regular Budget Fund, and split indicative shares for the Technical Cooperation Fund which started in 2011, where a portion of the assessments and indicative shares is set in US dollar.

222. Foreign currency revenue inflows are translated at differing exchange rates to the related foreign currency expense outflows which occur at a later date. The foreign exchange gains and losses associated with foreign currency holdings during the window between these inflows and outflows therefore does not represent the Agency's foreign currency risk under the currency management strategy outlined above.

223. The carrying amounts of the Agency's foreign currency denominated financial assets and financial liabilities translated to euro at end of the period are set out below. Some financial assets are denominated in difficult to use currencies ('illiquid currencies') that cannot be readily converted into euro.

Total cash, deposits and other investments currency denominations

(expressed in euro'000s)

	Euro	US Dollar	Others	Illiquid	Total
As at 31-12-2011	207 528	194 964	490	1 434	404 416
As at 01-01-2011 (Restated)	131 177	156 507	447	1 608	289 739

c) Liquidity risk management

224. Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Maturity analysis of the Agency's financial liabilities

225. Liquidity risk is primarily managed on an individual fund basis. For all funds except the Regular Budget, commitments can generally only be made once funds are available and therefore liquidity risk is minimal. For the Regular Budget, the appropriation based framework for expense authorisation ensures that expenses do not exceed revenue streams for any given year, while the working capital fund is a mechanism for providing liquidity, should issues arise around the timing of cash outflows and cash inflows (relating primarily to member state assessed contributions). The working capital fund provides a liquidity buffer for the Agency's regular budget of around 3 weeks cash-flow. It was not utilized during 2011.

226. The Agency's financial liabilities were around 42% of financial assets, and most of the financial liabilities are long-term in nature. The Agency's short-term financial liabilities (due within 12 months) were less than 7% of its short-term financial assets.

227. As at 31 December 2011, the average period to maturity of the Agency's cash and investments portfolio for euro and US dollar was 35 days and 78 days respectively.

d) Interest rate risk management

228. The Agency seeks to earn a competitive market rate of return on its investment portfolio; however, as stated above, capital preservation and liquidity are to be emphasized over the rate of return. Moreover, the Agency's return on the investment portfolio as a short-term fixed income investor is subject to the general level of short-term interest rates in euros and US dollars.

229. The investing horizon is based upon anticipated liquidity demands and is limited to financial assets with a maturity period of one year or less. Within these settings, during 2011, the Agency earned an average rate of 0.77% per annum on its euro cash and investments (0.38% per annum in 2010) and an average rate of 0.18% per annum on its USD cash and investments (0.29% per annum in 2010). The Agency (as with any short-term fixed income investor) is exposed to changes in interest rates on floating rate financial assets and as fixed rate financial assets mature and require reinvestment.

NOTE 39: Commitments

230. Commitments include purchase orders and service contracts that are not delivered as at end of the reporting period. As on 31 December 2011, the Agency had commitments of €89.699 million. The details by funding source (Fund Group) are provided below:

Fund Group	(expressed in euro'000s)
	Commitment Amount
Regular Budget Fund and Working Capital Fund	33 378
Technical Cooperation Fund	27 222
Extra-budgetary Programme Fund	14 971
Technical Cooperation Extra-budgetary Fund	12 679
Trust Funds, Reserve Funds and Special Funds	1 449
Total	89 699

Capital commitments

231. Out of the above, capital commitments were as follows:

	(expressed in euro'000s)
	31-12-2011
Scientific and Technical Equipment	9 584
Construction Contracts	9 056
Communications & IT Equipment	1 990
Furniture and Fixtures	270
Software	120
Vehicles	61
Total capital commitments	21 081

Operating lease commitments

232. The following table gives the details of the Agency's operating leases:

	(expressed in euro'000s)
	31-12-2011
Accommodation operating leases	1 324
Other leases	3 276
Total operating lease commitments	4 600
<i>Operating lease commitments by term</i>	
Less than one year	1 388
One to five years	3 212
Over five years	-
Total operating lease commitments	4 600

233. Accommodation operating lease commitments pertain to the Agency's offices, primarily New York, Toronto, Geneva and Tokyo offices.

234. Other leases primarily represent the rental of office equipment like photocopiers and printing equipment.

NOTE 40: Contingent liabilities and contingent assets

Contingent liabilities

235. As at 31 December 2011, there were twelve appeals cases against the Agency with the ILOAT relating to various claims from staff members or former staff members. Out of these twelve appeals, two cases were decided in favour of the Agency and two cases were decided in favour of the former staff members in February 2012. Additionally, there are six cases from staff members with the Joint Appeals Board. If the claimants for the remaining unresolved appeals are ultimately successful, it is estimated that the cost to the Agency would be approximately €1.8 million.

Contingent assets

236. The Agency's contingent assets consist primarily of pledges received that are subject to further parliamentary/other approvals from the donors (€9.792 million), and pledges received that have not yet been formally accepted by the Agency (€4.925 million).

NOTE 41: Events after the reporting date

237. The Agency's reporting date is 31 December 2011. The Financial Statements were authorized for issuance by the Director General on 22 March 2012, the date at which they were submitted to the External Auditor.

238. There were no significant events impacting the financial statements, favourable or unfavourable, between the reporting date and the financial statements issuance date.

NOTE 42: Ex-gratia payments

239. No ex-gratia payments have been made during the reporting period.

PART IV

Annexes to the Financial Statements

ANNEX A1

**REVENUE FROM CONTRIBUTIONS
FOR THE PERIOD ENDING 31 DECEMBER 2011
(expressed in euro)**

Donor	Regular Budget (RB)	Technical Cooperation Fund (TCF)	National Participation Costs (NPCs)	Extrabudgetary (EB)		TOTAL
				EB RB	EB TC	
I. Member States						
Afghanistan, Islamic Republic of	10 445	-	-	-	-	10 445
Albania	26 567	6 794	384	-	-	33 745
Algeria	326 774	83 566	19 726	-	-	430 066
Angola	26 114	15 185	-	-	-	41 299
Argentina	752 263	195 102	2 189	182 070	14 580	1 146 204
Armenia	13 283	-	9 554	-	-	22 837
Australia	5 960 659	1 216 055	-	23 819	72 489	7 273 022
Austria	2 623 582	557 108	-	-	-	3 180 690
Azerbaijan	37 194	9 138	(627)	-	900 000	945 705
Bahrain	118 455	-	-	-	-	118 455
Bangladesh	26 113	6 794	-	-	-	32 907
Belarus	106 268	27 176	1 701	-	-	135 145
Belgium	3 314 679	-	-	12 383	-	3 327 062
Belize	2 657	-	351	-	-	3 008
Benin	7 834	-	-	-	-	7 834
Bolivia	18 597	-	6 011	-	-	24 608
Bosnia and Herzegovina	34 537	8 832	170	-	-	43 539
Botswana	45 163	11 550	(1 358)	-	145 600	200 955
Brazil	4 217 556	-	3 188	-	-	4 220 744
Bulgaria	98 298	25 138	10 605	-	-	134 041
Burkina Faso	7 834	2 039	-	-	-	9 873
Burundi	2 611	-	-	-	-	2 611
Cambodia	7 834	-	-	-	-	7 834
Cameroon	29 224	-	(2 664)	-	28 388	54 948
Canada	9 889 632	1 791 262	-	1 525 025	-	13 205 919
Central African Republic	2 611	-	-	-	-	2 611
Chad	5 223	-	-	-	-	5 223
Chile	616 475	83 223	2 222	7 290	7 000	716 210
China	8 166 701	2 088 476	656	214 840	-	10 470 673
Colombia	369 282	57 075	207	-	382 590	809 154
Congo	9 351	-	-	-	-	9 351
Costa Rica	87 671	-	(5 876)	-	-	81 795
Cote d'Ivoire	26 567	6 794	(551)	-	-	32 810
Croatia	247 072	-	4 141	-	94 474	345 687
Cuba	180 656	44 503	11 381	-	-	236 540
Cyprus	140 777	29 893	-	-	-	170 670
Czech Republic	912 491	228 278	146	36 948	125 788	1 303 651
Democratic Republic of the Congo	7 835	2 039	-	-	-	9 874
Denmark	2 268 444	481 695	-	-	-	2 750 139
Dominican Republic	106 268	-	1 090	-	-	107 358
Ecuador	100 954	25 817	(1 485)	-	-	125 286
Egypt	241 760	60 768	3 759	-	-	306 287
El Salvador	47 821	-	1 221	-	49 490	98 532
Eritrea	2 611	-	-	-	-	2 611
Estonia	100 954	25 817	1 033	3 805	-	131 609
Ethiopia	20 891	5 435	-	-	929 130	955 456
Finland	1 746 923	384 570	-	117 597	-	2 249 090
France	18 883 416	3 140 855	-	1 370 918	-	23 395 189
Gabon	35 304	-	25 615	-	1 060 120	1 121 039
Georgia	15 941	4 076	(4 340)	-	-	15 677
Germany	24 725 695	4 764 560	-	7 833 135	-	37 323 390
Ghana	15 941	4 076	9 193	-	1 927	31 137
Greece	2 018 786	-	1 010	10 905	-	2 030 701
Guatemala	71 731	-	1 230	-	270 375	343 336

Annex A1 (continued)

Donor	Regular Budget (RB)	Technical Cooperation Fund (TCF)	National Participation Costs (NPCs)	Extrabudgetary (EB)		TOTAL
				EB RB	EB TC	
Haiti	7 834	-	-	364	-	8 198
Holy See	3 197	1 761	-	-	-	4 958
Honduras	21 253	-	1 695	-	-	22 948
Hungary	760 410	183 129	218	22 830	55 050	1 021 637
Iceland	127 980	27 176	-	-	-	155 156
India	1 368 202	349 891	-	-	-	1 718 093
Indonesia	608 384	129 370	(3 461)	-	-	734 293
Iran, Islamic Republic of	597 758	-	(3 076)	-	-	594 682
Iraq	50 477	12 908	(268)	-	-	63 117
Ireland	1 535 758	-	-	-	-	1 535 758
Israel	1 183 817	121 370	4 727	-	-	1 309 914
Italy	15 415 163	3 009 529	-	100 000	-	18 524 692
Jamaica	34 537	-	1 052	-	-	35 589
Japan	38 643 490	7 894 180	-	17 215 357	512 675	64 265 702
Jordan	34 537	8 832	(1 626)	-	51 620	93 363
Kazakhstan	193 939	49 596	4 657	-	-	248 192
Kenya	31 880	8 153	382	-	-	40 415
Korea, Republic of	6 601 978	1 479 733	1 224	2 430 468	30 440	10 543 843
Kuwait	809 477	165 380	(5 275)	7 500 000	-	8 469 582
Kyrgyzstan	2 657	-	(260)	-	-	2 397
Latvia	98 298	25 138	-	-	40 000	163 436
Lebanon	85 014	14 610	1 726	-	-	101 350
Lesotho	2 611	679	-	-	-	3 290
Liberia	2 611	-	-	-	-	2 611
Libya	336 752	-	(3 829)	-	-	332 923
Liechtenstein	28 791	6 115	-	-	-	34 906
Lithuania	167 373	42 802	9 430	-	-	219 605
Luxembourg	278 357	57 200	-	-	-	335 557
Madagascar	7 834	2 039	-	-	-	9 873
Malawi	2 611	679	-	-	-	3 290
Malaysia	662 642	165 773	(4 482)	-	14 590	838 523
Mali	7 834	2 039	-	-	-	9 873
Malta	43 452	-	(1 348)	-	-	42 104
Marshall Islands	2 657	-	-	-	-	2 657
Mauritania, Islamic Republic of	2 611	679	-	-	-	3 290
Mauritius	29 224	7 474	-	-	35 050	71 748
Mexico	6 167 462	1 484 326	2 189	-	-	7 653 977
Monaco	9 600	2 039	-	225 574	-	237 213
Mongolia	5 314	1 358	(197)	-	-	6 475
Montenegro	10 626	4 459	(409)	-	36 450	51 126
Morocco	148 776	38 047	(1 602)	13 500	-	198 721
Mozambique	7 834	2 004	-	-	-	9 838
Myanmar	15 669	4 076	-	-	-	19 745
Namibia	21 253	5 435	4 931	-	-	31 619
Nepal	15 669	-	-	-	-	15 669
Netherlands	5 720 692	1 259 360	-	195 320	-	7 175 372
New Zealand	841 465	-	-	-	45 148	886 613
Nicaragua	7 834	2 039	862	-	-	10 735
Niger	5 223	1 358	-	-	970	7 551
Nigeria	199 253	50 955	21 420	-	-	271 628
Norway	2 684 380	570 017	-	5 057 835	-	8 312 232
Oman	258 731	56 390	4 892	-	-	320 013
Pakistan	209 880	53 672	7 321	-	316 850	587 723
Palau	2 716	-	-	-	-	2 716
Panama	55 791	6 872	1 079	-	-	63 742

Annex A1 (continued)

Donor	Regular Budget (RB)	Technical Cooperation Fund (TCF)	National Participation Costs (NPCs)	Extrabudgetary (EB)		TOTAL
				EB RB	EB TC	
Paraguay	18 596	-	1 863	-	-	20 459
Peru	231 133	28 469	1 942	-	2 584 101	2 845 645
Philippines	231 133	47 645	(1 403)	-	-	277 375
Poland	2 120 048	542 162	714	50 000	-	2 712 924
Portugal	1 491 355	187 158	6 276	-	-	1 684 789
Qatar	415 937	-	12 217	-	-	428 154
Republic of Moldova	5 314	1 358	759	-	-	7 431
Romania	454 296	116 177	2 012	8 300	-	580 785
Russian Federation	4 940 016	593 670	443	1 119 574	-	6 653 703
Saudi Arabia	2 172 598	543 520	3 467	-	-	2 719 585
Senegal	15 669	4 048	-	-	-	19 717
Serbia	95 640	24 458	858	-	-	120 956
Seychelles	5 431	-	(435)	-	-	4 996
Sierra Leone	2 611	-	-	-	-	2 611
Singapore	1 033 440	219 446	(10 899)	-	-	1 241 987
Slovakia	363 968	96 494	6 136	-	-	466 598
Slovenia	316 747	67 261	(4 634)	12 249	-	391 623
South Africa	985 637	261 310	(18 630)	86 689	40 000	1 355 006
Spain	9 796 846	924 672	-	242 386	10 400	10 974 304
Sri Lanka	47 821	9 513	(667)	-	-	56 667
Sudan	26 114	6 794	-	-	-	32 908
Sweden	3 282 682	692 211	-	88 050	-	4 062 943
Switzerland	3 484 247	759 612	-	131 640	-	4 375 499
Syrian Arab Republic	63 760	16 306	9 895	-	-	89 961
Tajikistan	5 314	1 358	3 491	-	-	10 163
Thailand	533 998	136 559	422	-	-	670 979
The Former Yugoslav Republic of Macedonia	18 597	-	-	-	-	18 597
Tunisia	77 045	19 703	1 122	-	12 065	109 935
Turkey	1 580 738	401 429	(11 113)	30 000	70 200	2 071 254
Uganda	15 669	4 076	-	-	-	19 745
Ukraine	223 163	55 119	9 536	137 000	-	424 818
United Arab Emirates	1 206 214	-	(7 339)	31 129	139 800	1 369 804
United Kingdom of Great Britain and Northern Ireland	20 364 778	4 273 033	-	5 483 732	-	30 121 543
United Republic of Tanzania	20 891	5 435	-	-	138 750	165 076
United States of America	79 987 356	14 846 759	-	68 698 250	4 650 501	168 182 866
Uruguay	70 609	-	6 684	-	147 000	224 293
Uzbekistan	26 567	6 374	6 449	-	122 956	162 346
Venezuela, Bolivarian Republic of	804 981	-	938	-	-	805 919
Vietnam	83 563	21 740	2 616	-	-	107 919
Yemen	26 113	6 794	-	-	-	32 907
Zambia	10 445	2 718	-	-	553	13 716
Zimbabwe	7 970	2 039	339	-	759 019	769 367
Sub Total:	311 724 943	57 627 751	164 913	120 218 982	13 896 139	503 632 728
II. New Member States						
Lao People's Democratic Republic	2 584	-	-	-	-	2 584
Sub Total:	2 584	-	-	-	-	2 584
III. Other Donors						
European Commission	-	-	-	58 011	-	58 011
International Organizations	-	-	-	37 288 541	113 711	37 402 252
Other sources	-	-	-	66 027	-	66 027
Sub Total:	-	-	-	37 412 579	113 711	37 526 290
GRAND TOTAL:	311 727 527	57 627 751	164 913	157 631 561	14 009 850	541 161 602

ANNEX A2

STATUS OF OUTSTANDING CONTRIBUTIONS
FOR THE PERIOD ENDING 31 DECEMBER 2011
(expressed in euros)

Donors	Working Capital Fund (WCF)	Regular Budget (RB)	Technical Cooperation Fund (TCF)	National Participation Costs (NPCs)	Assessed Programme Costs (APCs)	Extrabudgetary (EB)		TOTAL
						EB RB	EB TC	
I. Member States								
Afghanistan, Islamic Republic of	-	20 612	-	-	-	-	-	20 612
Albania	-	4 621	6 850	390	-	-	-	11 861
Algeria	-	-	-	-	-	-	-	-
Angola	1 065	33 604	30 795	-	-	-	-	65 464
Argentina	-	-	-	-	-	-	-	-
Armenia	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-
Austria	-	-	-	-	-	-	-	-
Azerbaijan	-	-	-	(627)	-	-	-	(627)
Bahrain	-	913	-	-	-	-	-	913
Bangladesh	-	21 070	108	-	-	-	-	21 178
Belarus	-	-	-	-	-	-	-	-
Belgium	-	-	-	-	-	10 000	-	10 000
Belize	-	7 446	-	642	-	-	-	8 088
Benin	-	5 058	-	-	-	-	-	5 058
Bolivia	152	99 846	-	4 924	215 233	-	-	320 155
Bosnia and Herzegovina	-	-	-	-	-	-	-	-
Botswana	-	-	-	(854)	-	-	-	(854)
Brazil	-	37	465 723	-	-	-	11 998	477 758
Bulgaria	-	-	-	-	-	-	-	-
Burkina Faso	-	6 833	2 055	-	-	-	-	8 888
Burundi	152	7 396	-	-	-	-	-	7 548
Cambodia	-	160 242	-	-	-	-	-	160 242
Cameroon	-	37 298	-	28 616	-	-	25 000	90 914
Canada	-	-	1 859 414	-	-	510 000	-	2 369 414
Central African Republic	152	22 470	658	-	-	-	-	23 280
Chad	152	9 683	-	-	-	-	-	9 835
Chile	-	-	-	-	-	-	-	-
China	-	-	1 523	-	-	-	-	1 523
Colombia	-	-	467	-	-	-	-	467
Congo	456	15 185	-	-	-	-	-	15 641
Costa Rica	-	178 801	-	(5 876)	-	-	-	172 925
Cote d'Ivoire	152	49 017	12 771	1 681	40 289	-	-	103 910
Croatia	-	-	-	-	-	-	6 966	6 966
Cuba	-	312 183	-	-	-	-	-	312 183

Annex A2 (continued)

Donors	Working Capital Fund (WCF)	Regular Budget (RB)	Technical Cooperation Fund (TCF)	National Participation Costs (NPCs)	Assessed Programme Costs (APCs)	Extrabudgetary (EB)		TOTAL
						EBRB	EBTC	
Lebanon	-	-	-	-	-	-	-	-
Lesotho	-	-	-	-	-	-	-	-
Liberia	-	180 504	-	-	-	-	-	180 504
Libya	9 643	337 610	-	(3 829)	-	-	-	343 424
Liechtenstein	-	-	-	-	-	-	-	-
Lithuania	-	-	-	-	-	-	-	-
Luxembourg	-	268	-	-	-	-	-	268
Madagascar	152	18 015	5 348	-	-	-	-	23 515
Malawi	-	5 062	1 343	-	-	-	-	6 405
Malaysia	-	-	-	(4 482)	-	-	-	(4 482)
Mali	-	-	2 713	-	-	-	-	2 713
Malta	-	-	-	(1 348)	-	-	-	(1 348)
Marshall Islands	-	2 825	-	-	-	-	-	2 825
Mauritania, Islamic Republic of	-	1 020	685	-	-	-	-	1 705
Mauritius	-	2 800	-	-	-	-	15 480	18 280
Mexico	-	-	-	-	-	-	-	-
Monaco	-	-	-	-	-	-	-	-
Mongolia	-	-	-	(1 197)	-	-	-	(1 197)
Montenegro	454	10 653	-	29 427	-	-	-	40 534
Morocco	-	-	-	(1 602)	-	-	13 500	11 898
Mozambique	-	6 670	-	-	-	-	-	6 670
Myanmar	-	-	95	-	-	-	-	95
Namibia	-	-	-	-	-	-	-	-
Nepal	457	23 158	-	-	-	-	-	23 615
Netherlands	-	-	-	-	-	-	10 000	10 000
New Zealand	-	-	-	-	-	-	-	-
Nicaragua	-	1 534	-	-	-	-	-	1 534
Niger	-	-	-	-	-	-	-	-
Nigeria	-	-	-	-	-	-	-	-
Norway	-	-	-	-	-	-	10 000	10 000
Oman	-	-	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-	-	-
Palau	-	7 622	-	-	-	-	251 550	251 550
Panama	-	-	-	-	-	-	-	-
Paraguay	304	279 030	5 263	17 100	57 476	-	-	359 173
Peru	1 825	561 988	-	1 975	114 855	-	-	680 643
Philippines	-	-	-	(1 403)	-	-	-	(1 403)
Poland	-	-	-	13 173	-	-	-	13 173
Portugal	-	-	-	-	-	-	-	-
Qatar	-	7 145	-	12 465	1 673	-	-	21 283

Annex A2 (continued)

Donors	Working Capital Fund (WCF)	Regular Budget (RB)	Technical Cooperation Fund (TCF)	National Participation Costs (NPCs)	Assessed Programme Costs (APCs)	Extrabudgetary (EB)		TOTAL
						EB RB	EB TC	
Republic of Moldova	-	43 724	-	43 688	-	-	-	87 412
Romania	-	3 759	-	-	40 170	-	-	43 929
Russian Federation	-	-	-	-	-	3 489 000	-	3 489 000
Saudi Arabia	-	-	-	-	-	-	-	-
Senegal	-	259	2 632	-	-	-	-	2 891
Serbia	-	-	-	-	-	-	-	-
Seychelles	-	5 441	-	(435)	-	-	-	5 006
Sierra Leone	-	146 212	-	(4 187)	-	-	-	146 212
Singapore	-	-	-	(4 187)	-	-	-	(4 187)
Slovakia	-	-	-	-	-	-	-	-
Slovenia	-	-	103 154	(4 634)	-	-	-	98 520
South Africa	-	-	-	(18 630)	-	-	40 000	21 370
Spain	25 411	4 158 181	-	-	-	23 220	-	4 206 812
Sri Lanka	-	434	-	(667)	186 245	-	-	186 012
Sudan	-	70 836	2 483	-	-	-	-	73 319
Sweden	-	504 548	341 473	-	-	10 000	-	856 021
Switzerland	-	-	-	-	-	-	-	-
Syrian Arab Republic	-	-	-	10 064	-	-	-	10 064
Tajikistan	-	-	-	-	-	-	-	-
Thailand	-	-	-	-	-	-	-	-
The Former Yugoslav Republic of Macedonia	-	18 941	3 290	313	-	-	-	22 544
Tunisia	-	-	-	-	-	-	-	-
Turkey	-	34 124	-	(11 113)	-	-	-	23 011
Uganda	457	21 067	-	-	-	-	-	21 524
Ukraine	-	-	-	-	-	-	-	-
United Arab Emirates	-	-	-	(7 339)	-	-	-	(7 339)
United Kingdom of Great Britain and Northern Ireland	-	-	-	-	-	10 000	-	10 000
United Republic of Tanzania	-	-	-	-	-	-	-	-
United States of America	-	3 864 196	-	6 798	-	1 033 865	-	4 898 061
Uruguay	-	70 750	-	-	-	-	169 445	246 993
Uzbekistan	-	255 475	-	19 008	-	-	19 721	294 204
Venezuela, Bolivarian Republic of	16 731	1 177 951	-	-	-	-	-	1 194 682
Vietnam	-	-	-	-	-	-	-	-
Yemen	456	26 180	6 850	-	-	-	-	33 486
Zambia	-	-	-	-	-	-	-	-
Zimbabwe	-	-	-	-	-	-	-	-
Sub Total	62 966	18 727 887	3 271 164	231 045	1 066 987	15 757 718	1 174 053	40 291 820

Annex A2 (continued)

Donors	Working Capital Fund (WCF)	Regular Budget (RB)	Technical Cooperation Fund (TCF)	National Participation Costs (NPCs)	Assessed Programme Costs (APCs)	Extrabudgetary (EB)		TOTAL
						EB RB	EB TC	
III. New Member States								
Lao People's Democratic Republic	152	2 618	-	-	-	-	-	2 770
Sub Total	152	2 618	-	-	-	-	-	2 770
III. Former Member States								
Korea, Democratic People's Republic of	-	128 576	22 938	-	30 737	-	-	182 251
Yugoslavia, Former	-	2 296 834	645 536	-	296 219	-	-	3 238 589
Sub Total	-	2 425 410	668 474	-	326 956	-	-	3 420 840
IV. Other Donors								
European Commission	-	-	-	-	-	-	-	-
International Organizations	-	-	-	-	-	642 408	482 417	1 124 825
Other sources	-	-	-	-	-	-	-	-
Sub Total	-	-	-	-	-	642 408	482 417	1 124 825
GRAND TOTAL	63 118	21 155 915	3 939 638	231 045	1 393 943	16 400 126	1 656 470	44 840 255

ANNEX A3

**STATUS OF ADVANCE PAYMENTS
FOR THE PERIOD ENDING 31 DECEMBER 2011
(expressed in euro)**

Donor	Regular Budget (RB)	Technical Cooperation Fund (TCF)	National Participation Costs (NPC)	Extrabudgetary (EB)		TOTAL
				EB RB	EB TC	
I. Member States						
Algeria	339 643	79 252	-	-	-	418 895
Argentina	37 374	100 000	-	-	-	137 374
Australia	6 135 909	-	-	-	-	6 135 909
Bosnia and Herzegovina	-	-	10 353	-	-	10 353
Canada	10 180 398	-	-	-	-	10 180 398
China	-	-	-	-	87 800	87 800
Chile	1 636	-	-	-	-	1 636
Colombia	-	-	4 648	-	-	4 648
Costa Rica	-	-	18 019	-	-	18 019
Cuba	-	29 953	74 621	-	68 681	173 255
Czech Republic	-	-	5 000	-	22 794	27 794
Denmark	2 335 139	456 826	-	-	-	2 791 965
Ecuador	95	-	-	-	-	95
Estonia	104 540	48 833	365	-	-	153 738
France	-	-	-	15 000	-	15 000
Gabon	26 020	-	-	-	-	26 020
Germany	-	-	-	2 000	-	2 000
Ghana	-	-	-	-	194	194
Greece	-	-	1 502	-	-	1 502
Holy See	3 278	1 731	-	-	-	5 009
Hungary	795 328	-	6 106	-	-	801 434
Indonesia	632 343	135 000	45 348	-	-	812 691
Iran, Islamic Republic of	-	20 000	2	-	-	20 002
Ireland	-	-	-	10 000	-	10 000
Japan	-	-	-	1 460 625 a/	-	1 460 625
Kazakhstan	-	-	-	49 898	-	49 898
Korea, Republic of	-	-	-	210 951	121 071	332 022
Kuwait	-	160 657	-	-	-	160 657
Latvia	102 169	15 936	575	-	-	118 680
Lithuania	148 437	-	8 746	-	-	157 183
Mali	298	-	-	-	-	298
Mauritius	-	-	24 791	-	-	24 791
Mexico	-	-	25 550	-	-	25 550
Monaco	86	18	-	100 000	-	100 104

Annex A3 (continued)

Donor	Regular Budget (RB)	Technical Cooperation Fund (TCF)	National Participation Costs (NPC)	Extrabudgetary (EB)		TOTAL
				EBRB	EBTC	
Mongolia	-	-	117	-	-	117
Montenegro	-	-	23 670	-	-	23 670
Morocco	-	-	5 876	-	-	5 876
New Zealand	858 868	-	-	43 263	-	902 131
Niger	98	-	-	-	-	98
Nigeria	36 531	24 961	19 077	-	-	80 569
Norway	-	-	-	1 035 666	-	1 035 666
Pakistan	-	-	36	-	-	36
Panama	2 807	-	16 154	-	-	18 961
Republic of Moldova	5 523	1 289	-	-	-	6 812
Romania	-	-	1 386	-	-	1 386
Serbia	-	-	18 976	-	-	18 976
Seychelles	-	-	4 017	-	-	4 017
Singapore	1 063 823	208 117	-	-	-	1 271 940
Slovenia	-	-	5 450	-	-	5 450
South Africa	-	-	30 493	-	-	30 493
Sri Lanka	-	-	36 452	-	3 440	39 892
Switzerland	-	5 006	-	-	-	5 006
Tajikistan, Republic of	-	-	15 011	-	28 415	43 426
Thailand	-	-	2 783	-	-	2 783
Tunisia	10 740	-	-	-	-	10 740
Turkey	-	-	1 432	-	300 000	301 432
United Kingdom of Great Britain and Northern Ireland	-	-	-	32 058	-	32 058
United Republic of Tanzania	148	-	-	-	-	148
United States of America	-	-	-	3 328 324 a/	-	3 328 324
Venezuela, Bolivarian Republic	-	-	20	-	-	20
Vietnam	2 342	-	-	-	-	2 342
Zambia	2 541	-	-	-	-	2 541
Zimbabwe	372	-	-	-	-	372
Subtotal	22 826 486	1 287 579	406 770	6 287 785	632 201	31 440 822
II. Other Donors						
International Organizations	-	-	-	54 147	-	54 147
Subtotal	-	-	-	54 147	-	54 147
GRAND TOTAL	22 826 486	1 287 579	406 770	6 341 932	632 201	31 494 969

a/ Includes unallocated contributions to the Peaceful Uses Initiative (PUI).

ANNEX A4

**CONTRIBUTIONS-IN-KIND
FOR THE PERIOD ENDING 31 DECEMBER 2011**
(expressed in euro)

Donor	Goods-in-kind			Services-in-kind				TOTAL
	PPE	Inventory	Other Goods	Human Resources	Type II Fellowships	Meetings/ Facilities	Other Services	
I. Member States:								
Algeria	-	-	-	88 712	-	-	-	88 712
Argentina	-	-	100	283 665	-	4 800	-	288 565
Armenia	-	-	-	19 675	-	-	-	19 675
Australia	-	-	1 745	390 268	-	-	-	392 013
Austria	-	-	355 555	50 739	6 889	-	-	413 183
Azerbaijan	-	-	-	2 000	-	-	-	2 000
Bahrain	-	-	-	4 000	-	-	-	4 000
Bangladesh	-	-	-	17 404	-	-	-	17 404
Belarus	-	-	-	28 822	-	-	-	28 822
Belgium	-	-	550	296 102	-	600	-	297 252
Bolivia	-	-	-	1 000	-	-	-	1 000
Bosnia and Herzegovina	-	-	-	18 120	-	-	-	18 120
Brazil	-	-	100	182 614	-	-	-	182 714
Bulgaria	-	-	50	46 069	-	-	-	46 119
Burkina Faso	-	-	-	7 129	-	-	-	7 129
Cambodia	-	-	-	1 800	-	-	-	1 800
Cameroon	-	-	-	9 805	-	-	-	9 805
Canada	-	-	1 375	638 399	7 121	-	-	646 895
Chile	-	-	200	65 375	-	-	-	65 575
China	-	-	875	457 573	-	4 548	36 397	499 393
Colombia	-	-	-	19 816	1 522	-	-	21 338
Costa Rica	-	-	-	14 121	-	-	-	14 121
Côte d'Ivoire	-	-	-	2 600	-	-	-	2 600
Croatia	-	-	-	22 496	-	-	-	22 496
Cuba	-	-	-	30 024	-	-	-	30 024
Cyprus	-	-	-	2 600	-	-	-	2 600
Czech Republic	-	-	325	224 179	-	-	52 430	276 934
Democratic Republic of the Congo	-	-	-	2 400	-	-	-	2 400
Denmark	-	-	25	36 969	-	-	-	36 994
Dominican Republic	-	-	-	600	-	-	-	600
Ecuador	-	-	-	8 331	-	-	-	8 331
Egypt	-	-	15	68 292	-	-	-	68 307
El Salvador	-	-	-	26 200	-	-	-	26 200
Estonia	-	-	-	2 719	-	-	-	2 719

Annex A4 (continued)

Donor	Goods-in-kind			Services-in-kind				TOTAL
	PPE	Inventory	Other Goods	Human Resources	Type II Fellowships	Meetings/ Facilities	Other Services	
Ethiopia	-	-	-	6 078	-	-	-	6 078
Finland	-	-	320	215 700	-	-	-	216 020
France	-	-	2 490	1 038 716	30 906	-	-	1 072 112
Gabon	-	-	-	11 487	-	-	-	11 487
Germany	-	-	2 800	820 633	6 192	-	-	829 625
Ghana	-	-	-	31 363	-	-	-	31 363
Greece	-	-	50	24 395	4 838	-	-	29 283
Guatemala	-	-	-	4 100	-	-	-	4 100
Honduras	-	-	-	1 400	-	-	-	1 400
Hungary	-	-	2 800	192 167	-	-	-	194 967
Iceland	-	-	-	9 328	-	-	-	9 328
India	-	-	935	300 829	-	-	-	301 764
Indonesia	-	-	-	50 303	-	-	-	50 303
Iran, Islamic Republic of	-	-	-	163 119	-	-	-	163 119
Iraq	-	-	-	3 526	-	-	-	3 526
Ireland	-	-	90	26 601	-	1 296	-	27 987
Israel	-	-	50	34 106	-	-	-	34 156
Italy	-	-	375	323 930	10 062	-	-	334 367
Jamaica	-	-	-	19 600	-	-	-	19 600
Japan	-	-	1 755	1 545 010	-	10 373	-	1 557 138
Jordan	-	-	25	31 774	-	-	-	31 799
Kazakhstan	-	-	-	25 094	-	-	-	25 094
Kenya	-	-	-	4 329	-	-	-	4 329
Korea, Republic of	-	-	675	792 033	-	-	-	792 708
Kuwait	-	-	-	11 689	3 947	-	-	15 636
Latvia	-	-	-	800	-	-	-	800
Lebanon	-	-	-	7 400	-	-	-	7 400
Libya	-	-	-	5 176	-	648	-	5 824
Lithuania	-	-	-	48 916	-	-	-	48 916
Madagascar	-	-	-	1 000	-	-	-	1 000
Malawi	-	-	-	9 800	-	-	-	9 800
Malaysia	-	-	50	82 780	-	-	-	82 830
Mali	-	-	-	6 097	-	-	-	6 097
Mauritius	-	-	-	800	1 238	-	-	2 038
Mexico	-	-	150	102 914	3 444	-	-	106 508

Annex A4 (continued)

Donor	Goods-in-kind		Services-in-kind				TOTAL	
	PPE	Inventory	Other Goods	Human Resources	Type II Fellowships	Meetings/ Facilities		Other Services
Monaco	-	-	1 088 657	58 106	-	1 292 657	-	2 439 420
Mongolia	-	-	-	11 828	-	-	-	11 828
Montenegro	-	-	-	600	-	-	-	600
Morocco	-	-	-	32 005	-	2 970	-	34 975
Mozambique	-	-	-	13 600	-	-	-	13 600
Namibia	-	-	-	4 704	-	-	-	4 704
Nepal	-	-	-	8 100	-	-	-	8 100
Netherlands	-	-	390	130 583	-	2 184	-	133 157
New Zealand	-	-	15	9 504	-	-	-	9 519
Nicaragua	-	-	-	400	-	-	-	400
Nigeria	-	-	-	38 572	-	-	-	38 572
Norway	-	-	80	123 894	464	-	-	124 438
Oman	-	-	-	4 800	-	-	-	4 800
Pakistan	-	-	100	95 752	-	-	-	95 852
Panama	-	-	-	9 938	-	-	-	9 938
Paraguay	-	-	-	1 000	-	-	-	1 000
Peru	-	-	-	20 129	2 322	-	-	22 451
Philippines	-	-	-	42 988	-	-	-	42 988
Poland	-	-	15	79 754	258	-	-	80 027
Portugal	-	-	-	29 320	-	-	-	29 320
Republic of Moldova	-	-	-	3 000	-	-	-	3 000
Romania	-	-	125	94 688	-	-	-	94 813
Russian Federation	-	-	150	604 289	-	-	-	604 439
Saudi Arabia	-	-	-	17 736	-	-	-	17 736
Senegal	-	-	-	1 400	-	-	-	1 400
Serbia	-	-	-	13 230	-	-	-	13 230
Sierra Leone	-	-	-	600	-	-	-	600
Singapore	-	-	25	5 000	-	-	-	5 025
Slovakia	-	-	25	181 345	-	-	-	181 370
Slovenia	-	-	50	-	-	-	-	50
South Africa	-	-	-	268 172	-	-	-	268 172
Spain	-	-	305	324 380	35 954	-	-	360 639
Sri Lanka	-	-	-	6 989	-	-	-	6 989
Sudan	-	-	-	3 400	-	-	-	3 400
Sweden	-	-	3 630	286 946	-	-	331 000	621 576
Switzerland	-	-	835	229 643	10 449	-	-	240 927

Annex A4 (continued)

Donor	Goods-in-kind		Services-in-kind				TOTAL
	PPE	Inventory	Other Goods	Human Resources	Type II Fellowships	Meetings/Facilities	
Syrian Arab Republic	-	-	-	42 803	-	-	42 803
Tajikistan	-	-	-	3 255	-	-	3 255
Thailand	-	-	-	21 415	-	-	21 415
The Former Yugoslav Republic of Macedonia	-	-	-	2 000	-	-	2 000
Tunisia	-	-	-	25 658	-	-	25 658
Turkey	-	-	75	82 709	-	2 067	84 851
Uganda	-	-	-	1 200	-	-	1 200
Ukraine	-	-	-	141 419	-	-	141 419
United Arab Emirates	-	-	-	58 521	-	-	58 521
United Kingdom of Great Britain and Northern Ireland	-	-	4 305	566 045	-	484	570 834
United Republic of Tanzania	-	-	-	6 846	-	-	6 846
United States of America	220 126	224 740	101 812	1 705 148	321 411	-	2 573 237
Uruguay	-	-	-	9 000	310	-	9 310
Uzbekistan	-	-	-	10 037	-	-	10 037
Venezuela	-	-	-	1 200	-	-	1 200
Vietnam	-	-	-	44 448	-	-	44 448
Zambia	-	-	-	7 900	-	-	7 900
Zimbabwe	-	-	-	1 400	-	-	1 400
Sub-total:	220 126	224 740	1 574 074	14 511 008	447 327	1 322 627	18 719 729
II. Other donors:							
EC (European Commission)	-	-	-	5 184	-	-	5 184
International Organizations	-	-	1 200	45 968	-	1 320	48 488
Other	-	-	-	-	-	44 775	44 775
Sub-total:	-	-	1 200	51 152	-	46 095	98 447
GRAND TOTAL	220 126	224 740	1 575 274	14 562 160	447 327	1 368 722	18 818 176

ANNEX A5

REGULAR BUDGET FUND
STATUS OF CASH SURPLUSES
As at 31 December 2011
(expressed in euro)

	2011
<u>Calculation of Provisional Cash Surplus / (deficit) for 2011</u>	
Receipts	300 054 134
Disbursements	<u>(276 136 175)</u>
Excess (shortfall) of receipts over disbursements	23 917 959
Unliquidated obligations	(33 992 276)
Transfer of 2011 RB unused appropriations to reserve for MCIF	<u>(3 894 591)</u>
Provisional 2011 cash deficit	<u>(13 968 908)</u>

<u>Calculation of Final Cash Surplus for 2010</u>	
Provisonal cash deficit for 2010	(28 104 128)
Receipt of:	
Contributions all prior years	30 076 749
Less: 2009 Cash deficit	(288 512)
Miscellaneous income	<u>342 360</u>
Final cash surplus for 2010	2 026 469
Prior years cash surpluses a/	<u>194 791</u>
Total cash surpluses	<u>2 221 260</u>

a/ withheld pending receipt of contributions

ANNEX A6

REGULAR BUDGET FUND
SHARES OF MEMBER STATES IN THE 2010 CASH SURPLUS
(expressed in euro)

Donor	2010 Scale of Assessment %	Allocation Amount €
Member States		
Afghanistan, Islamic Republic of	0.001	20
Albania	0.005	101
Algeria	0.069	1 398
Angola	0.002	41
Argentina	0.268	5 431
Armenia	0.002	41
Australia	1.760	35 665
Austria	0.873	17 691
Azerbaijan	0.004	81
Bahrain	0.032	649
Bangladesh	0.008	162
Belarus	0.016	324
Belgium	1.085	21 987
Belize	0.001	20
Benin	0.001	20
Bolivia	0.005	101
Bosnia and Herzegovina	0.005	101
Botswana	0.011	223
Brazil	0.721	14 611
Bulgaria	0.016	324
Burkina Faso	0.002	41
Burundi	0.001	20
Cambodia a/	0.001	20
Cameroon	0.008	162
Canada	2.932	59 416
Central African Republic	0.001	20
Chad	0.001	20
Chile	0.132	2 675
China	2.159	43 751
Colombia	0.085	1 723
Congo	0.001	20
Costa Rica	0.026	527
Côte d'Ivoire	0.008	162
Croatia	0.040	811
Cuba	0.044	892
Cyprus	0.043	871
Czech Republic	0.232	4 701
Democratic Republic of the Congo	0.002	41
Denmark	0.728	14 753
Dominican Republic	0.019	385
Ecuador	0.017	344
Egypt	0.071	1 439
El Salvador	0.016	324
Eritrea	0.001	20
Estonia	0.013	264
Ethiopia	0.002	41
Finland	0.555	11 247
France	6.206	125 761
Gabon	0.007	142
Georgia	0.003	61

Annex A6 (continued)

Donor	2010 Scale of Assessment %	Allocation Amount €
Germany	8.447	171 174
Ghana	0.003	61
Greece	0.542	10 983
Guatemala	0.026	527
Haiti	0.002	41
Holy See	0.001	20
Honduras	0.004	81
Hungary	0.201	4 073
Iceland	0.037	750
India	0.364	7 376
Indonesia	0.130	2 634
Iran, Islamic Republic of	0.145	2 938
Iraq	0.012	243
Ireland	0.439	8 896
Israel	0.413	8 369
Italy	5.001	101 343
Jamaica	0.008	162
Japan	16.372	331 770
Jordan	0.009	182
Kazakhstan	0.024	486
Kenya	0.008	162
Korea, Republic of	1.977	40 063
Kuwait	0.179	3 627
Kyrgyzstan	0.001	20
Latvia	0.014	284
Lebanon	0.028	567
Lesotho	0.001	20
Liberia	0.001	20
Libya	0.051	1 034
Liechtenstein	0.010	203
Lithuania	0.025	507
Luxembourg	0.084	1 702
Madagascar	0.002	41
Malawi	0.001	20
Malaysia	0.156	3 161
Mali	0.001	20
Malta	0.014	284
Marshall Islands	0.001	20
Mauritania, Islamic Republic of	0.001	20
Mauritius	0.009	182
Mexico	1.858	37 651
Monaco	0.003	61
Mongolia	0.001	20
Montenegro	0.001	20
Morocco	0.034	689
Mozambique	0.001	20
Myanmar	0.004	81
Namibia	0.005	101
Nepal	0.002	41
Netherlands	1.844	37 368
New Zealand	0.253	5 127
Nicaragua	0.002	41
Niger	0.001	20
Nigeria	0.039	790
Norway	0.770	15 604

Annex A6 (continued)

Donor	2010 Scale of Assessment %	Allocation Amount €
Oman	0.070	1 419
Pakistan	0.048	973
Palau	0.001	20
Panama	0.018	365
Paraguay	0.004	81
Peru	0.063	1 277
Philippines	0.063	1 277
Poland	0.406	8 227
Portugal	0.480	9 727
Qatar	0.084	1 702
Republic of Moldova	0.001	20
Romania	0.056	1 135
Russian Federation	1.182	23 953
Saudi Arabia	0.615	12 463
Senegal	0.003	61
Serbia	0.017	344
Seychelles	0.002	41
Sierra Leone	0.001	20
Singapore	0.341	6 910
Slovakia	0.051	1 034
Slovenia	0.094	1 905
South Africa	0.235	4 762
Spain	2.923	59 233
Sri Lanka	0.013	263
Sudan	0.008	162
Sweden	1.055	21 379
Switzerland	1.197	24 257
Syrian Arab Republic	0.013	263
Tajikistan	0.001	20
Thailand	0.150	3 040
The Former Yugoslav Republic of Macedonia	0.004	81
Tunisia	0.025	507
Turkey	0.309	6 262
Uganda	0.002	41
Ukraine	0.036	730
United Arab Emirates	0.298	6 039
United Kingdom of Great Britain and Northern Ireland	6.541	132 550
United Republic of Tanzania	0.005	101
United States of America	25.559	517 940
Uruguay	0.022	446
Uzbekistan	0.007	142
Venezuela, Bolivarian Republic of	0.162	3 283
Vietnam	0.019	385
Yemen	0.006	122
Zambia	0.001	20
Zimbabwe	0.007	142
TOTAL:	100.001 b/	2 026 469

a/ New Member State which joined the Agency after the approval of the scale of assessment.

b/ The total does not add up to 100% as it contains the new Member State that was assessed in addition to the prevailing scale. However, in the calculation of the allocation amounts to be refunded, this difference was taken into account.

PART V

Report of the External Auditor on the audit of the Financial Statements

**REPORT OF THE EXTERNAL AUDITOR
ON THE AUDIT OF THE FINANCIAL STATEMENTS
OF THE INTERNATIONAL ATOMIC ENERGY AGENCY
FOR THE YEAR ENDED 31 DECEMBER 2011**

➤	A. Executive Summary	(paragraphs 1 - 79)
	A.1. Scope and Approach of the Audit	(paragraphs 1 - 13)
	A.2. Main Audit Findings and Recommendations	(paragraphs 14 - 79)
➤	B. Analysis of the Financial Statements	(paragraphs 80 - 111)
	B.1. Conversion to IPSAS	(paragraphs 80 - 84)
	B.2. Assets and Liabilities	(paragraphs 85 - 106)
	B.3. Revenue and Expenses	(paragraphs 107 - 111)
➤	C. Detailed Findings for 2011	(paragraphs 112 - 322)
	C.1. Financial Issues	(paragraphs 112 - 121)
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➤	D. Follow-up on the Results of my Findings and Recommendations Last Year and in Prior Years	(paragraphs 323 - 352)
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➤	E. Other Matters	(paragraphs 353 - 356)
	E.1. Cases of Fraud and Presumptive Fraud	(paragraph 353)
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A. EXECUTIVE SUMMARY

A.1. Scope and Approach of the Audit

A.1.1. Scope of the audit

Audit of the financial statements and performance of the IAEA. Principles governing my audit - ISA and ISSAI.

1. I have audited the financial statements of the International Atomic Energy Agency (IAEA) for the financial period 1 January to 31 December 2011 in accordance with Article XII of the Financial Regulations and the Additional Terms of Reference Governing the External Audit annexed thereto. My audit has been conducted in conformity with International Standards on Auditing (ISA) as adopted and expanded by the International Organization of Supreme Audit Institutions (INTOSAI) and issued as International Standards for Supreme Audit Institutions (ISSAI). These standards require me to comply with ethical requirements, and to plan and carry out the audit so as to obtain reasonable assurance that the financial statements are free from material misstatement. The Agency's management was responsible for preparing these financial statements, and I am responsible for expressing an opinion on them based on evidence obtained in the course of my audit.

Audit of the financial statements

2. The financial statements for the IAEA, together with my audit report and the audit opinion, have been submitted to the Director General (DG) as provided for by the relevant financial regulation. The DG has taken note of the contents of my report and had no further comments.

Performance audits in accordance with ISSAI

3. The ISA as issued for the private sector require the auditor to carry out an audit of the organization's financial statements and financial transactions. In addition to this the ISSAI also provide guidance for the conduct of performance audits. I therefore carried out reviews under paragraph 5 of the Additional Terms of Reference Governing External Audit whereby I may make such observations as I deem necessary on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, on the financial consequences of existing administrative practices. The results can be found in sections C and D of this report.

A.1.2. Audit objective

Financial audit to form the audit opinion

4. According to the requirements of ISA the main purpose of the audit was to enable me to form an opinion on whether expenditure recorded for the year had been incurred for the purposes approved by the General Conference; whether revenue and expenses were properly classified and recorded in accordance with the Agency's financial regulations; and whether the financial statements presented fairly the financial position at 31 December 2011.

Performance Audits deal with economy, efficiency and effectiveness.

5. In addition, to a large extent I also examined the Agency's performance in order to assess whether expenditures are being incurred according to the principles of economy, efficiency and effectiveness.

A.1.3. Audit approach

My team examined the accounting records as necessary.

We took a random sample check of a statistically sufficient number of invoices.

The financial statements for 31 December 2011 are the first ones presented under IPSAS.

My team checked whether the accounting methods applied conformed to IPSAS requirements.

An audit of interim financial statements carried out in 2011 included IAEA's accounting policies as stated in the notes to the financial statements.

The implementation of IPSAS together with the first phase of the implementation of the new Enterprise Resource Planning System, AIPS, caused significant workload.

There were no material weaknesses in the interim financial statements including the opening balances. The financial policy has been continuously discussed with my staff.

6. My audit examination included a general review, and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. These audit procedures are designed primarily to allow an opinion on the IAEA's financial statements to be formed.

7. In addition, my team analyzed the Agency's transactions using professional audit software. We took a random sample of a significant number of all invoices. We also checked that invoices and the related documents had been filed in accordance with the regulations and cross-checked the basis for payment and the necessary signatures. None of the invoices examined gave cause for criticism.

8. The IAEA has decided to implement International Public Sector Accounting Standards (IPSAS). The first IPSAS compliant financial statements are those presented for 31 December 2011. During 2011 the organization changed its accounting policy accordingly and produced interim financial statements as at 30 June 2011 under IPSAS. The Secretariat requested the External Auditor also to examine and test the accounting policies and records as at 30 June 2011.

9. One goal was to find out whether IAEA's accounting methods conform to the officially established new accounting standards and whether the financial statements comply with IPSAS requirements. Another goal was to establish audited figures for the opening balance for 2011.

10. My team examined whether IAEA's interim financial statements were compliant with IPSAS, particularly whether:

- IAEA's accounting policies and notes to the financial statements reflected the application of IPSAS requirements to all financial transactions
- The financial statements as at 30 June 2011 were prepared in accordance with IPSAS and
- The IPSAS-based opening balances were properly reflected in the financial statements.

11. The implementation of IPSAS in the IAEA was closely linked to the first phase of the implementation of the new Enterprise Resource Planning System (ERP system) called AIPS (Agency Information System for Programme Support) which was completed as planned by 1 January 2011. The finance and the procurement systems, programme and project management and asset management were launched on 24 January. The data migration caused considerable additional workload, and a great deal of manual consolidation work was indispensable. The transition represented a significant challenge and required considerable management time and effort and the cooperation of all staff concerned.

12. My examination of the interim financial statements did not reveal material weaknesses. In particular, the opening balance contained all the elements that are necessary for a report under IPSAS. Financial policy in this area has also been fully discussed with my staff over the years and agreed in principle. Recommendations for improved procedures or more comprehensive disclosures were taken up by the Secretariat and amended presentations are included in the respective parts of the Notes to the Financial Statements, 31 December 2011.

A.1.4. Audit conclusion

There were no material weaknesses that affected the audit opinion. I placed an unqualified audit opinion on the financial statements.

13. Notwithstanding the observations in this report, my examination revealed no weaknesses or errors which I considered material to the accuracy, completeness and validity of the financial statements as a whole. During 2011, in accordance with normal practice, my staff reported additional findings to the Agency's management. None of these matters affect my audit opinion on the Agency's financial statements, and I have placed an unqualified opinion on the Agency's financial statements for 2011.

A.2. Main Audit Findings and Recommendations

A.2.1. Subjects of my performance audits during 2011

Results of a further field mission concerning Technical Cooperation

14. In each of my prior reports I presented the results of field missions dealing with the Agency's Technical Cooperation Fund (TCF). In 2011 my team carried out another field mission to Africa examining cooperation between United Nations (UN) organizations providing Technical Cooperation (TC), the results of which support my prior findings and call for an increase in efforts to join the United Nations Development Assistance Framework (UNDAF) process as designed by the United Nations Development Group (UNDG). My team further dealt with the UN concept of 'delivery as one' (section C.6).

Other matters and follow-up

15. My report also includes a follow-up to audit recommendations contained in my reports for 2010 and prior years and a commentary on other matters arising from the audit of the Agency's financial statements for 2011 (sections D and E).

Performance areas covered by this report

16. For 2011, despite the efforts necessary for the audit of the transition to IPSAS, performance audit was again of high importance for my team's audit work. It has mainly covered the following areas:

- Risk Management and Internal Controls
- Human Resources (HR) Management
- Oversight
- Procurement
- Safeguards
- Nuclear Security
- Technical Cooperation
- Information Technology and
- The newly established Low Enriched Uranium Bank.

IPSAS in some cases require individual solutions.

17. The report also provides a comprehensive assessment of the Agency's first financial statements produced in accordance with IPSAS (paras. 112 - 118). There were a large number of financial policy decisions on which I could easily agree with the Secretariat because it followed the policies and guidance provided by the UN task force on IPSAS. However, I would like to draw Member States' attention to those decisions where the Agency's differing business model led to intensive discussions with my team. I invite Member States to consider carefully the agreed solutions found and seek their agreement thereto (section B, refers).

A.2.2. Summary of findings and recommendations for the Secretariat

A.2.2.1. Financial issues

18. I recommend keeping inventories for publications and reference materials under review and monitoring possible effects of changes on IAEA's financial policy (para. 97, refers).

19. I recommend continuing negotiations with all Vienna-based Organizations in order to achieve a consistent treatment of the VIC buildings in their financial statements (para. 100, refers).

A.2.2.2. International Public Sector Accounting Standards

20. The Secretariat has handled this issue particularly well, with clear project planning, and working groups established to address individual key themes. The project was not just restricted to key finance staff, but communicated to all staff across the organization and there was an open engagement with the External Auditors (para. 115, refers).

21. The Organization needs to learn lessons from past experience. The project was dependent on key individuals. Timely delivery was unnecessarily and repeatedly put at risk - although the risk did not materialize - because professional staff left at crucial stages of the project implementation. Furthermore, hiring consultants is costly and should only be done in a harmonized manner, involving all other UN parties concerned and sharing results with each other (para. 116, refers).

22. IAEA will need to find an appropriate method to allocate staff costs to specific activities. In the context of the implementation of AIPS, I therefore recommend considering the adaptation of the ERP database so that AIPS will be able to deliver these data whenever needed (para. 121, refers).

A.2.2.3. Administrative matters

A.2.2.3.1. Statement of Internal Control

23. I would like to encourage the Secretariat to finalize the risk management that was recommended by the External Auditor two years ago and to achieve a proper relationship between risks and internal control (paras. 128, 331 – 333, refer).

24. This enhanced accountability can be brought together in an annual Statement on Internal Control which should be attached to the financial statements and include the opinion of the internal auditor (para. 129, refers).

25. The issuance of a Statement of Internal Control needs to go hand in hand with a reasonable delegation of authority in the Secretariat, where I still see considerable room for improvement (para. 133, refers).

A.2.2.3.2. Office of Internal Oversight Services (OIOS)

26. I recommend that the Secretariat transfer all the OIOS responsibilities related to the Administrative Manual to the Department of Management and change the manual accordingly (para. 135, refers).

27. In accordance with the corresponding decision of the UN Secretary General, I recommend that the Secretariat should consider transferring the managerial service function outside OIOS as this responsibility is inconsistent with the assurance functions of oversight (para. 140, refers).

28. I recommend that the Director OIOS accelerate efforts to complete the updated OIOS Internal Audit Manual. I further recommend that the Director OIOS should continue to prepare and publish an Investigation Manual and an Evaluation Manual (paras. 143, 147, refer).

A.2.2.3.3. Joint Staff Management Bodies

29. It is necessary to resolve important staff matters in a speedier way. I recommend that the Joint Advisory Committee convene more often and that the Secretariat accelerate its activities in resolving staff problems (para. 159, refers).

A.2.2.3.4. Human Resources Management

30. I recommend continuing the production of generic job descriptions, because this has a very positive impact on the duration of the recruitment process, in particular in the professional category (para. 163, refers)

31. The use of consultants in the Agency in general exceeds what is foreseen. I recommend reporting in greater detail on the employment of consultants in the yearly report 'Personnel - Staffing of the Agency's Secretariat' (para. 167, refers).

32. I welcome the amendments to the provisions relating to the appointment of staff and in particular the introduction of amendments to the TA appointment. However, the type of appointment should be clearly defined in the vacancy notice (para. 175, refers).

33. Concerning the staff rotation policy, I welcome the start the Secretariat has made to review this process and I reiterate my former recommendations. However, I continue to recommend reassessing the rotation policy, in particular with regard to a more judicious mix of long-term and fixed-term appointments in all Departments, and an Agency-wide common approach to long-term staff at a level higher than 40% (para. 179, refers).

34. The Secretariat's targets of 5 weeks between drafting job descriptions and issuing vacancy notices, and 18 weeks between the advertisement of vacancies and selection, are still far from being achieved. In 2011 the average duration was 15 weeks for the former period, which is even longer than before, and 23 weeks for the latter period. I encourage the Secretariat to continue to streamline this process (para. 188, refers).

35. In view of the loss of about € 1.25 million per year of the organization's contributions to the UN Joint Staff Pension Fund in connection with contracts expiring in less than five years, I recommend considering alternatives, such as establishing or joining an existing provident fund as additional option for staff serving less than 5 years (para. 191, refers).

A.2.2.3.5. Project Management

36. As decisions on cross-organizational projects are sometimes taken on the basis of incomplete information, I encourage the Secretariat to follow international best practice in implementing these projects in order to avoid uneconomic investments in future (para. 197, refers).

37. I recommend improving the existing mechanisms for the implementation of cross-organizational projects or alternatively establishing a 'Project Co-ordination Committee' (para. 197, refers).

A.2.2.4. Safeguards/Nuclear Energy

A.2.2.4.1. Low Enriched Uranium Bank

38. I urge the Secretariat to complete its risk management identifying all potential dangers, to assess them and to develop strategies to meet them (para. 210, refers).

39. I further recommend conducting studies on:

- The impact of IAEA as a market participant in the nuclear fuel market, taking into account its own effect influence on the market and any risks involved for the Agency
- Site safety and security
- Sustainability of the financial and budgetary framework (para. 210, refers).

A.2.2.4.2. Integrated Safeguards

40. I appreciate the Secretariat's initiative in strengthening the efficiency and effectiveness of Safeguards with the integrated safeguards programme. However, I found an absence of hard figures on the human, as well as financial resources required to initiate and operate integrated safeguards (para. 221, refers).

41. I urge the Secretariat to install a comprehensive control system that could make such an important programme more transparent (para. 222, refers).

A.2.2.4.3. Confidentiality

42. To avoid future leakages of confidential information, I recommend implementing the new and more prudent Policy on Relations with the Media which the Director General approved in 2010 (para. 230, refers).

43. To enhance a comprehensive understanding and application of the new information security policy, I recommend drawing the appropriate conclusions from matters investigated by OIOS relating to the alleged leakage of confidential information (para. 231, refers).

A.2.2.4.4. Agency's Laboratories at Seibersdorf

44. I recognize that the Secretariat shared my concerns regarding security at Seibersdorf from the beginning and has consequently taken action to improve the current situation fundamentally. I am assured that the open issues concerning access control to the IAEA premises and a state-of-the-art monitoring system for the perimeter, will be resolved in the near future (para. 236, refers).

A.2.2.5. Nuclear Safety and Security

A.2.2.5.1. Incident and Emergency Centre

45. At the time of the emergency in Fukushima, a report initiated by the Incident and Emergency Centre identified some weaknesses. I recommend initiating an action and implementation plan which will aim to eliminate the identified deficiencies (para. 241, refers).

A.2.2.5.2. Office of Nuclear Security

46. I recommend that the Office of Nuclear Security continue its ongoing discussions on how to improve its internal management processes and that it accelerate its activities to adopt such new processes (para. 246, refers).

A.2.2.6. Technical Cooperation

A.2.2.6.1. United Nations Development Assistance Framework Process

47. While I appreciate that UNDAF participation improved in 2011, I recommend that the Secretariat should continue by all possible means to achieve a greater degree of cooperation in the UNDAF process (para. 252, refers).

48. I appreciate the steps taken concerning the development of a systematic approach for outreaches and the presentation of Briefing Notes, because these promote brainstorming on how the Agency and other UN organizations can contribute to each other's development projects (para. 254, refers).

49. I recommend that the Agency strive toward joint programming with other UN organizations in the long term. The Agency should also make efforts to harmonize the Common Country Assessment and the Country Programme Framework (para. 256, refers).

50. The Secretariat should consider issuing clear instructions concerning cooperation with the UN Country Teams (UNCTs) in order to ensure quality and to increase productivity in collaborative work (para. 259, refers).

51. Programme Management Officers should represent the Agency in the UNCTs as a normal, established participant and make available the required resources. The Secretariat should consider emphasizing the importance of UNDAF collaboration in the Programme Management Officers' job description (para. 260, refers).

52. The Secretariat should consider integrating structured data into the Project Cycle Management Framework concerning UNDAFs, their outcomes and linkages to TC projects for improved reporting and monitoring (para. 263, refers).

A.2.2.6.2. UNDAF processes in three African countries in 2011

53. I recommend that the Secretariat should seek ways to improve the National Liaison Officers' (NLOs) level of knowledge concerning the Resident Coordinators, the UNCT and UN organizations' priorities and scope of operations (para. 266, refers).

54. I deem it necessary that the Secretariat should consider how it can ensure that UNCTs are always fully informed of the Agency's capabilities (para. 268, refers).

55. I appreciate the positive achievements made in collaboration work and encourage the Secretariat to proceed with linking TC projects to UNDAF outcomes as this would demonstrate concretely its willingness to collaborate with other UN organizations (para. 270, refers).

A.2.2.6.3. Implementation of national TC projects in three African countries

56. The Secretariat should continue providing training courses for counterparts (CPs) and NLOs because the countries visited in October 2011 did not yet have a long history in TC project design and implementation, and had limited knowledge of project tools and procedures for TC projects (para. 271, refers).

57. The Secretariat should encourage greater involvement and representation of NLOs and CPs in the Programme Cycle Management Framework process in a systematic manner (para. 275, refers).

58. I recommend that the Secretariat should give clear guidance to NLOs, and CPs regarding their role in the current procurement procedure in order to avoid continuing problems in retrieving equipment from customs (para. 277, refers).

A.2.2.6.4. Recurrent and other findings

59. I recommend that the Secretariat exert its influence to ensure that Project Progress Reports are consistently provided and that the meaning of Performance Key Indicators be defined, so that the achievement of TC project objectives can be properly reviewed (para. 279, refers).

60. I recommend that all new CP staff be provided with the excellent guidance document which was prepared for one new Member State visited. This contained important information on procedures and terms concerning TC projects and would promote smooth TC project design and implementation (para. 281, refers).

61. I strongly recommend again that the Secretariat ensure that adequate project management knowledge be made available to all participants in TC projects (para. 284, refers).

62. The Secretariat should continue to inform National Project Coordinators on how they can benefit from Regional Designated Centres (para. 286, refers).

63. I appreciate the action taken concerning coordination between the parties to four regional agreements in a Quadripartite Meeting and encourage the Secretariat to implement the agreed action plan for strengthening cooperation between the parties (para. 288, refers).

A.2.2.7. Information technology

64. As a consequence of serious software development problems, the 'IAEA's Safeguards Information System Re-engineering Project' has been delayed. In view of the importance of this project for appropriate and up to date provision of Safeguards information, and also for the security of Information Technology (IT)-based Safeguards data, I believe resolution of these problems should be given the highest priority (para. 290, refers)

65. In order to ensure business continuity, I recommend that the Agency adapt its Disaster Recovery Infrastructure to international standards concerning IT security and follow a 'one house approach'. The Disaster Recovery Infrastructures of SG and MT should be unified in a secure part of the SG's clean lab building in Seibersdorf (para. 307, refers).

66. I strongly recommend implementing Phase III of the Data Centre project without any further delay. This is necessary to prevent major problems arising in the event of a power failure and to avoid expenses increasing further (para. 314, refers).

67. With regard to desktop computers, laptops and displays, significant potential savings over the last five years were not realized. I strongly reiterate my recommendation that the Secretariat take advantage of reductions in prices in future (para. 322, refers).

A.2.2.8. Recommendations resulting from prior years' findings

68. I continue to recommend that AIPS should be prepared to meet the requirements of accrual budgeting so that the Secretariat can adopt accrual budgeting in the longer term (para. 326, refers).

69. I recommend writing off the portion of outstanding assessed contributions from the former Yugoslavia which cannot be collected (para. 330, refers).

70. I recommend revising travel rules and procedures in accordance with the recommendations of Internal and External Audit, so that significant savings on travel costs can be realized (para. 336, refers).

71. I recommend taking advantage of any kind of synergies and economies possible following the completion of the restructuring of the Office of Procurement Services and the implementation of AIPS (para. 341, refers)

72. The Secretariat maintains a central IT security function and additionally a similar function for the safeguards department. In accordance with the 'one house approach', this division of responsibility should be avoided (para. 344, refers).

73. I recommend verifying the Secretariat's expectation that radioactive sources will no longer be delivered to Member States that lack a regulatory framework to deal with these substances (para. 348, refers).

74. I appreciate the measures taken to protect Radiation Portal Monitors against the risk of damage and recommend verification (para. 350, refers).

75. Verification visits by the EC should only be agreed upon if the EC have already examined all existing internal and external audit reports and all other relevant information received (para. 352, refers).

A.2.3. Recommendations for consideration by the Member States

76. Outstanding assessed contributions should be further reduced and new arrears avoided. Special attention should be paid to the allowance for doubtful debts. These amounts continue to be owed by the Member States concerned (para. 91, refers).

77. I recommend again that efforts be made by Member States to complete the ratification process with a view to implementing the decision taken 13 years ago to introduce biennial budgeting (para. 124, refers).

78. I recommend that the Member States request regular reports on the progress of integrated safeguards which describe the progress made in a transparent and comprehensible manner (para. 222, refers).

79. I recommend that the Agency create an Independent Audit Committee which would examine the work plans of OIOS, review the budget proposals, and advise on the effectiveness, efficiency and impact of the audit activities of the entire oversight functions in the Agency (para. 153, refers).

B. ANALYSIS OF THE FINANCIAL STATEMENTS

B.1. Conversion to IPSAS

The implementation of IPSAS represented a significant challenge and required considerable management time and effort.

The financial statements provided by the Secretariat fulfil the structural requirements of IPSAS.

The structure of the financial statements and the accounting policies are IPSAS-compliant.

I report on the Agency's financial development over a period of five years focussing on IPSAS requirements.

The significant accounting policies have been developed by the Secretariat and agreed with my team.

80. The IAEA has decided to implement IPSAS as from 1 January 2011. The implementation of IPSAS was closely linked to the first phase of AIPS implementation ('plateau 1') which was completed as planned by 1 January 2011. The transition represented a significant challenge and required considerable management time and effort and the cooperation of all staff concerned.

81. As a result of the adoption of IPSAS, the IAEA has to ensure more rigorous requirements in identifying and applying financial policies in a consistent manner than under United Nations System Accounting Standards (UNSAS). The financial statements provided by the Secretariat fulfil the structural requirements of IPSAS 1, since the statements, supported by a presentation of the financial policies and notes to the financial statements, contain the following necessary components:

- Statement of financial position, showing all the assets and liabilities of the Organization;
- Statement of financial performance, showing all the revenue and expenses recognized during the year;
- Statement of changes in net assets/equity, summarising the residual value of the assets of the Organization, after deducting all liabilities;
- Cash flow statement, providing details of how cash resources have been utilized during the year;
- Statements of comparison of budget and actual amounts, showing expenditure against budget appropriations on the (modified cash) basis on which the budget was approved.

Additionally, the Secretariat decided to prepare statements of segment reporting, showing revenues and expenses as well as assets and liabilities broken down by individual funds and programmes.

82. The current structure of the financial statements and the accounting policies are compliant with IPSAS. Since these financial statements are the first to have been prepared on a new basis, there is nothing to be said regarding inconsistency in the application of accounting policies as compared to the previous year.

83. In the following paragraphs I provide information showing trends, tendencies and background information over the last five years. For that purpose my staff carried out an analysis of several of the Agency's key figures and their development over the years since 2007. In particular, I comment on issues which appeared for the first time and where changes in the financial policies had to be made due to the requirements of IPSAS. This mainly applies to those assets and liabilities which had to be recorded under IPSAS for the first time.

84. The significant accounting policies are presented in Note 3 to the financial statements. They are mainly based on the results of the deliberations of the UN Task Force on IPSAS. The policies have been developed by the Secretariat and agreed with my team, and were already subject to the audit of the interim financial statements which were prepared as at 30 June 2011. All recommendations we made were taken into account, so that I can agree with the policy decisions taken in the financial statements as at 31 December 2011. My audit of the interim statements also included the opening balances as at 1 January 2011.

B.2. Assets and Liabilities

B.2.1. Cash, cash equivalents and Investments

The Agency's overall cash situation is satisfactory.

85. The Agency's overall cash situation is satisfactory. Cash, cash equivalents and investments in all funds increased by approximately € 115 million from € 290 million to € 405 million.

Year	Regular Budget Fund Working Capital Fund	Technical Cooperation Fund	EB Programme Fund	Technical Cooperation EB Fund	Trust Funds Reserve Funds and Special Funds
(1)	(2)	(3)	(4)	(5)	(6)
2007	65,784,115	42,805,495	61,326,960	18,387,852	3,076,456
2008	75,702,191	43,491,916	68,410,930	22,663,006	2,402,922
2009	65,862,656	50,923,935	118,228,390	25,691,863	5,620,773
2010	56,737,017	48,482,228	132,923,679	47,919,596	3,670,452
2011	79,710,550	56,319,326	228,990,861	35,849,616	3,545,913

Table 1: Cash, cash equivalents and investments in Euros (source: Statement VIIa)

Regular Budget cash resources increased by € 23 million.

86. In 2011 the Regular Budget cash resources increased by roughly € 23 million (column 2). A large portion of these funds is required to meet budgetary commitments amounting to € 33.4 million (Note 39). In addition, the availability of these funds must still be regarded in the light of the total of advance payments by Member States in 2011 for 2012 which amounted to € 22.8 million.

Advances to the LEU Bank increased cash significantly.

87. Cash in the Extrabudgetary (EB) Programme Fund is significantly influenced by payments to the Low Enriched Uranium Bank (LEU Bank) totalling € 90.9 million, which the DG accepted. However, the operation of the fuel bank has not yet started.

The credit balances of currencies which are difficult to use were further reduced.

88. The total amount held in currencies the use of which is described as legally or otherwise restricted (Note 38, refers), has been further reduced to € 1.4 million at the end of 2011 due to fruitful collaboration with the United Nations Development Programme (UNDP) which carries out projects in these countries with a high level of local expenditure.

B.2.2. Assessed Contributions Receivable

B.2.2.1. Arrears of Assessed Contributions

Arrears of assessed contributions decreased in 2011. For the first time the Secretariat recorded an allowance for doubtful debts.

89. In 2011, the level of outstanding assessed contributions decreased by roughly € 16 million. I appreciate that Member States with arrears to a large extent met their obligations and paid off old debts. The arrears, however, include an allowance for doubtful debts (B.2.2.1) totalling € 4.6 million, which has been set up for the first time in accordance with IPSAS. I would like to point out that recording an allowance for doubtful debts does not mean that the Member States' obligation to pay the arrears would no longer exist. This allowance merely assesses the probability with which the Secretariat expects payment.

Year	2007	2008	2009	2010	2011
Assessed Contributions Receivable	41,804	38,015	30,507	37,256	21,156

Table 2: Assessed contributions receivable in thousands of Euros (source: Note 7)

<p>The amount of outstanding assessed contributions decreased.</p> <p>Member States with significant arrears should do their utmost to fulfil their obligations and to pay their contributions when due.</p>	<p>90. The Secretariat made great efforts to collect outstanding assessed contributions. I welcome this development and encourage the Secretariat to continue its efforts to collect the outstanding funds.</p> <p>91. Therefore, I would like to urge the few Member States with significant arrears to do their utmost to fulfil their obligations. It is also a question of fairness vis-à-vis the other Member States to contribute to the well-being of the Agency in accordance with the agreed scale of assessment. Let me once more point out that the assessed contributions are due on 1 January of each year.</p>
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B.2.2.2. Doubtful assessed contributions receivable

<p>An allowance for doubtful contributions had to be calculated as at 31 December 2011.</p> <p>An allowance amounting to € 4.6 million had to be recorded.</p>	<p>92. In accordance with IPSAS, an allowance for doubtful contributions had to be calculated as at 31 December 2011. The method applied is in line with the recommendations of the UN Task Force on IPSAS. It is a mix of specific write-offs that are necessary and a general allowance for all older arrears.</p> <p>93. The allowance amounts to € 4,607,758 and is composed of € 3,714,451, being 99% of Regular Budget receivables that are more than 4 years in arrears i.e. from 2007 and earlier; and € 893,307, being 99% of the Regular Budget payment plans receivable from two Member States which were in default of the agreed repayment terms as of 31 December 2011.</p>
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B.2.3. Inventory

<p>The Secretariat decided not to recognize all of its inventories as assets.</p> <p>The value of the publications inventory will not be material to the financial statements.</p> <p>Due to uncertainty of the time of sale reference materials are also not recognized as assets.</p> <p>Inventories should be kept under review.</p>	<p>94. IPSAS requires recording the organization's inventories and identifying their appropriate value. The IPSAS Board provided for a transitional provision of 5 years for assets. However, it did not provide this transitional provision for inventories, although it is nearly impossible to determine the cost value of inventory items, because this was not required under UNSAS. Stocktaking of inventories is very time-consuming and can be very expensive in relation to the value of the stocks. The Secretariat decided to record as inventories only 'project inventories in transit to CPs in TC projects and 'safeguards spare parts, maintenance materials, and printing supplies' with a total value of € 5.5 million.</p> <p>95. Printed publications held in inventory for sale or free distribution to end users were not recognized because of obsolescence and lack of demand. All publications can be downloaded free of charge from the Agency's external website. I therefore agreed with the Secretariat's assessment that the value of the publications inventory will not be material to the financial statements.</p> <p>96. Reference materials, although representing a value of approximately € 4 million (replacement cost), were also not recognized in the financial statements, because it is impossible to determine when they might be sold. As the present value of future sales cannot be reliably stated, I agreed with the Secretariat's view not to recognize them as assets.</p> <p>97. I recommend keeping inventories for publications and reference materials under review and monitoring the effects of changes in IAEA's financial policy.</p>
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B.2.4. Property Plant and Equipment

The Secretariat had to determine and evaluate a large number of items which had to be recognized as assets.

The share of the VIC as an asset has not yet been recognized in IAEA's statement of financial position, because there was no agreement with the other VBOs regarding the treatment of these buildings.

I recommend continuing negotiations with all VBOs.

The buildings in Seibersdorf were capitalized and excluded from the transitional provision.

98. The Secretariat had to deal with a large number of items which had to be recognized as assets, ranging from inspection, laboratory and IT equipment, to owned and leased buildings and assets under construction. I can confirm that this work was carried out and a physical inventory was taken in accordance with IPSAS. All equipment was recognized at cost and depreciated over a reasonable period.

99. Problems were encountered with the Vienna International Centre (VIC), where the Secretariat, upon the advice of a consultant, decided to capitalize its share of the VIC buildings on the basis of the established cost-sharing formula, but has availed itself of the transitional provision under IPSAS 17 and has not yet recognized its share of the VIC buildings as an asset in its statement of financial position. This was done in the light of the absence of an agreement between all Vienna-based Organizations (VBOs) regarding the treatment of this building in their IPSAS financial statements.

100. I recommend continuing negotiations with all VBOs in order to achieve a consistent treatment of the VIC buildings in their financial statements.

101. At the same time, the buildings in Seibersdorf, which are clearly the Agency's property and for which the necessary valuations have been made, were capitalized. It was unclear whether taking advantage of the transitional period for the VIC would force the Secretariat to apply this provision to all of its buildings. However, in my opinion, recognizing premises owned solely by the Agency and premises whose use is shared with other organizations can be considered as separate asset classes, which justifies this treatment.

B.2.5. Intangible Assets

IPSAS requires the application of this standard for annual financial statements beginning on or after 1 April 2011.

Software purchased or developed before 2011 is not recorded.

102. IPSAS requires the application of the standard for intangible assets for annual financial statements beginning on or after 1 April 2011, but encourages organizations to apply it earlier. The Secretariat did this but did not go back to the years before 2011. This is the reason why the respective amount in the statement of financial position is zero as at 1 January 2011.

103. The Secretariat's treatment is IPSAS compliant. However, Member States should know that, although the useful life of acquired, as well as internally developed software is determined to be five years, only software purchased or developed in 2011 is recorded and consists mainly of the costs of implementing the IAEA's Safeguards Information System (ISIS) Re-engineering Project (IRP).

B.2.6. Unliquidated Obligations

Under IPSAS commitments totalling € 89.7 million are no longer recorded as unliquidated obligations.

104. Under IPSAS there is no longer a provision for unliquidated obligations. Accrual accounting requires that goods and services are delivered before any liabilities can be recorded. I would like to point out that this is a major change, because entering into a contract or issuing a purchase order will no longer result in a charge against the current year's income. The budgetary commitments which would previously have been recorded under UNSAS as unliquidated obligations are shown in Note 39 and total € 89.7 million.

B.2.7. Employee Benefit Liabilities

ASHI needed to be recorded as a liability, absorbing a considerable part of equity.

ASHI is a long-term liability and does not represent a payment that needs to be made in the immediate future.

105. The largest portion of this item relates to after-service health insurance (ASHI). This was already discussed in several of my previous reports and the actuarial value of this liability was finally disclosed in the Notes to the financial statements. According to IPSAS, Note disclosure is not sufficient. ASHI, amounting to € 111.182 million as at 31 December 2011, therefore needed to be recorded as a liability, absorbing a considerable part of equity.

106. It is important to understand that this actuarial valuation is an estimate of the long-term liabilities and does not represent a payment that needs to be made in the immediate future. It has been calculated by actuaries after taking into consideration various assumptions. Changes in these assumptions and the rate of inflation could significantly change the estimate of this liability. The actual cash payments to meet these medical expenses and other separation benefits will occur over several decades.

B.3. Revenue and Expenses

The Agency experienced a considerable excess of income over expenditure.

107. In 2011 the Agency overall experienced a considerable excess of revenue over expenses of € 150.7 million mainly caused by a significant increase in voluntary contributions to the EB Programme Fund. Concerning the Regular Budget Fund, there was a moderate net surplus of € 7.5 million.

B.3.1. Voluntary Contributions

Member States provided significant voluntary contributions.

108. Member States increasingly met demands for the Agency's services by providing voluntary contributions. The figures for the last five years are as follows:

	2007	2008	2009	2010	2011
Technical Cooperation Fund	60,329,704	54,101,725	61,325,762	60,502,580	59,721,056
EB Programme Fund	42,160,968	29,648,407	58,054,310	60,880,939	169,363,172
Technical Cooperation EB Fund	10,121,146	7,535,097	17,952,578	35,487,475	13,144,565
Trust Funds Reserve Funds and Special Funds	1,595,299	291,251	5,054,516	251,888	272,427
Total	114,207,117	91,576,480	142,387,166	157,122,882	242,501,220

Table 3: TC and EB activities - total revenue in Euros (source: Statement VIIb)

	2007	2008	2009	2010	2011
Technical Cooperation Fund	60,973,083	53,202,892	62,365,729	63,337,243	46,346,919
EB Programme Fund	37,063,809	41,375,483	43,462,460	49,336,236	41,481,945
Technical Cooperation EB Fund	11,363,934	7,441,949	11,382,543	37,082,992	11,066,124
Trust Funds Reserve Funds and Special Funds	1,162,662	1,181,211	1,568,898	2,079,112	468,732
Total	110,563,488	103,201,535	118,779,630	151,835,583	99,363,720

Table 4: TC and EB activities – total expenses in Euros (source: Statement VIIb)

Revenue of all TC and EB activities increased significantly.

Expenses are reduced because they do not include unliquidated obligations.

109. Total EB revenue increased significantly, to a large extent due to income from payments to fund the nuclear fuel bank. However, it also needs to be understood that, under IPSAS, revenue from voluntary contributions is recognized upon the signing of a binding agreement between the Agency and the donor. Under UNSAS, income from voluntary contributions was only recognized when paid.

110. On the other hand, the figures for expenses may give the impression that there was a significant decrease in activity compared to the years before. However, the main reason for this decrease is that unliquidated obligations are no longer recorded as expenditure. If one adds the committed amount as shown in Note 39 to the expenses reported, the result is quite comparable to that of prior years.

B.3.2. Interest Revenue

Investment income totalled only € 1.6 million as the Secretariat continues to put priority on the security of investments.

111. Low interest income amounting to € 1.6 million for all funds was achieved because interest rates, especially for investments in US\$, decreased to below 1 %. Investments were mainly made in Triple-A short-term US government debts (US T-Bills) and Triple-A Government Money Market Funds. At the end of 2011, the total amount held in these instruments is equivalent to more than € 130.4 million. All cash, cash equivalents and investments total € 404 million as at 31 December 2011 (Note 38, refers).

C. DETAILED FINDINGS FOR 2011

C.1. Financial Issues

C.1.1. International Public Sector Accounting Standards

The Agency has decided to prepare its financial statements under IPSAS.

The introduction of IPSAS will provide Member States with better financial information and contribute to a more effective use of resources.

We have been very impressed with the level of enthusiasm and energy with which the Secretariat tackled the implementation project of both AIPS and IPSAS.

112. The IAEA has decided to implement IPSAS and prepare the financial statements as of 31 December 2011 in accordance with these standards. Despite all efforts, the Agency experienced a delay of one year.

113. The efforts of the Agency in moving to an internationally recognized accounting framework will provide Member States and management with better financial information to use in managing the business of the Organization. The benefits that IPSAS can now generate should be utilized to ensure that the efforts made contribute towards more efficient and effective use of resources as a result of the improved management information.

114. Overall, we have been very impressed with the level of enthusiasm and energy with which the Secretariat tackled the implementation project of both AIPS and IPSAS. We believe that the Organization and its staff can rightly be proud of its achievement. IAEA changed its accounting policy, which had been based on modified cash accounting (UNSAS), and produced interim financial statements as at 30 June 2011 under IPSAS. These financial statements have been examined for IPSAS compliance by my team. The financial statements as at 31 December 2011 are now the first real IPSAS-compliant financial statements.

Some of the key aspects we think the Secretariat has handled particularly well:

115. We have outlined some of the key aspects we think the Secretariat has handled particularly well:

- Clear project planning, with working groups established to address individual key themes and to consider the necessary process changes that would be required. This meant that the finance staff took full ownership of the project throughout;

- The project was not just restricted to key finance staff. Instead, IPSAS and its fundamental principles were communicated to all staff across the organization. It was therefore not simply seen as an isolated finance project, but viewed as part of a much bigger move towards openness, transparency and improved financial reporting;

- Open engagement with the External Auditors, consulting on matters of accounting principle throughout the project lifecycle, which helped to avoid disagreements during the year-end final audit process; this included the preparation and delivery of the interim financial statements as at 30 June 2011, giving the External Auditors the opportunity at an early stage to carry out a critical review, as well as to provide positive input into their format.

There are areas where I think the Organization can learn lessons from past experience and where there is scope for future improvements:

116. We identified some areas where we think the Organization can learn lessons from past experience and where there is scope for future improvement:

- There was considerable delay in providing the necessary financial resources for the project. Once this was achieved, the project became dependent on key individuals. Timely delivery was unnecessarily and repeatedly put at risk because some key professional staff were no longer employed at crucial stages of the project implementation. Although the risk of untimely delivery did not materialize this put significant additional pressure on the remaining IPSAS team.

- There is a need to challenge and fully understand the information that is now available. Management will have a much greater understanding of IAEA's operations and are well placed to review and check the validity of the data. However, sufficient time should be allowed for this process to be carried out.

- Hiring consultants is costly and should be done only in a harmonized manner, involving all parties concerned. Consultants have been used, for example, to examine and review the treatment of the VIC in the financial statements and the requirements of IPSAS 1. Opportunities to use the guidance given by such consultancies and share their costs between all the UN organizations affected should be seized.

The Secretariat cooperated with me and my team in the adoption of IPSAS.

117. During the IPSAS implementation the Secretariat and my team worked in close contact bilaterally on specific accounting policies and implementation issues. All policy papers issued by the Task Force on IPSAS were considered. This was one of the major success factors.

The hand-over of the audit to our successors will include advice given on important policy issues.

118. In the first year after IPSAS implementation there will be further challenges in the application of the new standards. My mandate however will end with the delivery of this report. In order to avoid any differences in the assessment between my team and our Indian successors, we intend to carry out a comprehensive hand-over. We will highlight all issues which in our opinion are likely to have an impact on the forthcoming audit, including details of discussions with the client on accounting policies.

C.1.2. Cost Accounting

The delivery of current and comprehensive information can be completed by implementing a cost accounting system.

Staff costs could then be allocated according to the various mandates of the Member States.

I recommend considering the requirements of cost accounting in the adaptation of the ERP database so that AIPS will be able to deliver these data when the time is ripe.

119. IPSAS can deliver much more current and comprehensive information for both management and the Member States. One major advantage is that it would be possible to disclose actual costs of implementing specific activities (e.g., the development of software) if they were captured in a cost accounting system. Such a cost accounting system will, however, not be the first priority because management and staff of the IAEA are currently fully engaged in the implementation of the new ERP system.

120. Furthermore, the UN is aware that the absence of a cost accounting system means a lack in cost transparency. Approximately 80 per cent of the UN costs (the Agency's costs as well) are staff costs. They are not necessarily allocated according to the various mandates of the Member States. Audited IPSAS-compliant financial statements would be much more valuable if they contained relevant information on the distribution of costs.

121. I share the concerns regarding the lack of a cost accounting system. While acknowledging that IPSAS would deliver improved information in many areas, ultimately if the UN organizations are serious about more cost effective delivery of services, they will need to find a more appropriate method of allocating staff costs to activities. I am aware that this issue is currently not among the Secretariat's priorities. In the context of the implementation of AIPS, I therefore recommend considering the necessary features in the adaptation of the ERP so that AIPS will be able to deliver these data when the time is ripe.

C.2. Budgetary Issues

C.2.1. Biennial Budgeting

The Agency has taken the necessary steps to introduce biennial budgeting.

The implementation of biennial budgeting still needs formal acceptance by the Member States. My appeal last year to change the statute resulted in only one more ratification.

Also under IPSAS biennial budgeting is preferable.

122. Already in my Audit Report for 2004, I noted that the Agency aims at aligning its budgeting cycles with those common within the UN system. The Agency has taken the necessary steps to introduce biennial budgeting.

123. The amendment to Article XIV.A of the Statute to allow biennial budgeting has been approved by the General Conference in 1999 and must be ratified by two-thirds of the Member States (101 out of 152; status November 2011) in accordance with their respective constitutional processes, before it enters into force (Article XVIII.C (ii) of the Statute). Although more than twelve years have passed since the General Conference resolution, it is still not in force due to a shortfall in its ratification by Member States. As at 31 December 2011, 48 Member States had ratified the resolution, one more than in the previous year.

124. The implementation is not affected by the adoption of IPSAS, because IPSAS accounting policies only require annual reporting but not annual budgeting. I recommend again that efforts be made by Member States to complete the ratification process.

C.3. Administrative Issues

C.3.1. Statement of Internal Control

Enterprise risk management should be combined with reasonable internal controls in order to manage risks identified.	125. There is an on-going debate on risk management, accountability, internal control and the role of internal audit within the UN system. Many UN bodies lack a clear framework of responsibility and accountability through the management chain. They are struggling to implement enterprise risk management (ERM) and overlook the link between ERM and internal control. A reasonable understanding of the relationship between risks and internal control can help to avoid establishing too many controls which are often poorly targeted and often not complied with.
Until 2009 risk management was more or less considered to be a task of the internal oversight function.	126. In the IAEA, risk management was not comprehensively considered until the External Auditor recommended in 2009 implementing it by a risk assessment carried out by the individual organizational units and put together in a risk register. Until then risk management was more or less considered to be a task of the internal oversight function. The follow-up finding in 2010 could still not confirm that a proper ERM is in place.
Internal controls are absolutely necessary and need to be applied in high risk areas.	127. Risk management should be combined with a proper assessment of the implementation of internal controls. Internal controls are absolutely necessary and need to be applied in high risk areas. The Secretariat carries out some internal controls through individuals or committees which in my opinion are not related to risk areas, such as approval of duty travel by high level management.
A culture of personal responsibility and accountability of individual managers can be achieved by clear delegation of authority.	128. I would like to encourage the Secretariat to finalize the risk management plan that was recommended by the External Auditor two years ago and to assess the proper relationship between risks and internal control. What is needed is a clear culture of personal responsibility and accountability on the part of individual managers and to avoid internal controls where they are not needed. This can be achieved by clear delegation of authority down through the organization.
This accountability could be brought together in an annual Statement on Internal Control.	129. This accountability could be brought together in an annual Statement on Internal Control (SIC) attached to the financial statements and including the opinion of the internal auditor. This SIC must be based on a framework by which the organization can review, document and assure the effectiveness of its internal control systems.
World Food Programme is presently working with consultants to develop such a Statement. Other UN organizations will follow this example.	130. World Food Programme (WFP) officials informed the UN Panel of External Auditors at its last session that WFP is presently working with consultants to develop such a Statement. WFP emphasized that the main objective was not the compilation of the Statement itself, but the establishment of discipline and accountability structures throughout the organization that the issuance of such a document would require. Other IPSAS Task Force representatives attending the meeting of the Technical Group of the Panel reported that they had formalized structures for assuring the ' <i>letter of representation</i> '. The members of the Task Force generally acknowledged the need to address these issues in their organizations and agreed that some further thinking on the issues raised would be worthwhile.
The main benefit would be derived from the discipline of increasing the organization's capacity to handle risk.	131. I would like to encourage the Secretariat to take these steps. The design of an SIC should be much more than a paper exercise. The statement itself is only an articulation of the existing structures. The main benefit would be derived from the discipline of increasing the organization's capacity to handle risk and to establish an effective risk and control framework.

The Secretariat is prepared to follow the progress made by other UN organizations.

132. The Secretariat confirmed that risk assessment and risk management were in place in the Agency and were integrated with major Agency processes. It also confirms that the responsibility for internal controls always remains with Management. However, OIOS has overall responsibility for the oversight of internal controls, taking into account the relationship between risk management and the internal control system. Concerning the SIC, the Agency will follow the progress made by other UN organizations.

A reasonable delegation of authority in the Secretariat can help to avoid cumbersome and unnecessary internal control procedures in low risk areas.

133. I would like to recommend that this task should be taken very seriously. Risk management is an ongoing process and has to take into account each and every new or emerging challenge. High risks should be met with a higher degree of internal control. At the same time it should also be kept in mind that cumbersome and unnecessary internal control procedures in low risk areas can be extremely frustrating and expensive. Furthermore, the issuance of an SIC needs to go hand in hand with a reasonable delegation of authority in the Secretariat, and here I still see considerable room for improvement.

C.3.2. Oversight Function

C.3.2.1. OIOS activities

OIOS is discharging management functions outside its oversight functions

134. According to the Charter of OIOS, the Office shall be independent and therefore should have no direct responsibility for, or authority over, any of the activities reviewed. Furthermore, it is stipulated under the headline 'Independence and Objectivity' that OIOS shall not be used in the discharge of the Agency's operational or management functions outside its normal internal oversight functions. However, I noted that the IAEA Administrative Manual (AM) as of February 2012 states, under the headline of responsibility for the Manual (paragraph 3), that the Director (DIR) OIOS is responsible for authorizing the distribution of the AM, including all questions of style and format, ensuring that responsible offices have obtained proper clearances on the documents forwarded for insertion into the AM; and seeking the Deputy Director General for Management's (DDG-MT's) approval for incorporation. In my opinion, these activities are a function of management and should not be the responsibility of OIOS.

I recommend the transfer of OIOS administrative responsibilities to the Department of Management.

135. I recommend that the Secretariat should transfer all OIOS responsibilities relating to the AM to the Department of Management and amend the AM accordingly. OIOS responded that according to the Secretariat Directive (SEC/Dir) of 31 August 2006, OIOS bears no responsibility other than clearing the issuance. However, the AM stipulates that OIOS should assign numbers, distribute SEC/Dirs and create a depository. I therefore maintain my recommendation to transfer these activities of OIOS formally to the Department of Management.

OIOS management service function more appropriate located outside OIOS.

136. According to its Charter, OIOS functions include a management services function by which it provides independent and objective advisory and consulting services to managers in order to help them improve the Agency's programme performance and operations. For this, OIOS management services provide knowledge, expertise and techniques to help managers identify solutions and best practices, and find a way of adapting them in areas under review. I noted that these OIOS management service activities relate to monitoring projects and the enhancement of presence in the field. Management services are also provided regarding policies on personnel and the assessment of nuclear technologies. Furthermore, I noted that management services have also issued recommendations that could compromise OIOS's audit function.

The General Assembly and OIOS New York decided to move management consulting services to Department of Management.

137. Following recommendations made in the report of the Secretary-General (60th Session of the General Assembly), the Office of Internal Oversight Services of the UN agreed that the management consulting function be transferred out of OIOS as this is inconsistent with the assurance functions of oversight, and that the management consulting function would be more appropriately positioned outside OIOS. Subsequently, the management consulting function was integrated into the UN Secretariat's Department of Management.

I recommended the transfer of OIOS managerial services to the Department of Management.

138. I recommended that the Secretariat should consider transferring the managerial service function outside OIOS. DIR-OIOS responded that the management services function was previously within the Department of Management, but that on 2 April 2001 the Director-General reorganized the organizational structure and transferred the management function to OIOS. DIR-OIOS's view is that this is a practical solution which is in line with the common practices of large consultancy firms and would not conflict with standards issued by the Institute of Internal Auditors (IIA).

The Secretariat stated that a management services function would not compromise OIOS when carrying out audits later on.

139. The Secretariat stated that a management services function provided the DG with OIOS's recommendations and suggestions regarding appropriate working settings or structures on particular issues, but decisions were made by the DG. Therefore carrying out an independent internal audit on the same issue later on would not compromise OIOS, because the management services function had no decision-making function.

Managerial activities should be transferred out of OIOS.

140. In my opinion there should be a clear division between consulting and audit function. OIOS managerial activities have the potential to compromise its oversight function. Therefore I maintain my recommendation to transfer this function out of OIOS.

IIA Standards call for standard operating procedures to be embodied in an approved Audit Manual.

141. According to the IIA Standards, internal auditing staff shall govern themselves by adherence to the Code of Ethics. The IIA Standards for Professional Practice of Internal Auditing shall constitute the operating procedures for the Internal Audit Office. The Standard Operating Procedures Manual includes performance, and implementation standards to guide the Internal Audit Office. An Audit Manual should be approved and authorized by the Chief Audit Executive.

The development of the OIOS Audit Manual is in progress.

142. At my request, OIOS provided me with a copy of an unsigned audit manual dated 2008. I was informed by OIOS that this audit manual would be an update of a 2002 version produced by the Internal Audit Section for internal use. Furthermore, OIOS indicated that it was not possible to say whether the 2008 version was actually in force in the Internal Audit Section. However, reviewing the 2008 version, I noted that in the preface the manual made mention that it supersedes and replaces the former manual, dated May 2000. I was also informed that OIOS has now hired a consultant with the task creating a more updated OIOS Manual and received the first draft.

I recommend continuing efforts to create an updated Audit Manual.

143. I recommend that the DIR-OIOS should continue his efforts to create an updated OIOS Internal Audit Manual. Furthermore, I recommend that the DIR-OIOS should initiate the preparation of Standard Operating Procedures according to the IIA Standards that include performance, and implementation standards for the guidance of the office.

The Agency lacks an Investigation Manual.

144. In order to conduct investigations of staff members, OIOS prepared a set of general procedures relating to investigations of alleged misconduct. Introducing these procedures, OIOS stipulates that investigations be carried out following professional standards and in general accordance with recently adopted but non-binding 'Principles and Guidelines for Investigation'.

An Investigation Manual should be used as a practical guide for investigations.	145. However, I noted that OIOS lacks an investigation manual that should be used as a practical guide by the OIOS responsible for investigation and, even more importantly, by the Agency's staff members for reasons of transparency. The Investigation Manual should include information on OIOS investigative techniques, methods and procedures that should be applied to particular investigations. In addition, it would be helpful if the manual provides information on what constitutes misconduct, starting, for example, from basic mismanagement up to serious fraud cases.
Lack of an Evaluation Manual	146. At my request, OIOS provided me with a document describing the office's policy on evaluation. Under the heading 'Guiding Principles' the policy mentions that the Agency is a member of the United Nations Evaluation Group (UNEG) and, with the exception of a more limited distribution of evaluation results, abides by the UNEG Norms and Standards for evaluation in the UN system. However, I noted that OIOS lacks an Evaluation Manual.
I recommend that the DIR-OIOS should prepare and publish both an Investigation and an Evaluation Manual.	147. A comprehensive manual would provide the core methodology and processes OIOS applies in undertaking independent evaluations. The manual should aim at providing guidance to OIOS staff and supporting consultants responsible for evaluations. Meanwhile the Investigation Manual was drafted by a qualified expert. The Evaluation Manual is being prepared by an equally qualified adviser. I therefore recommend that the DIR-OIOS should finalize and publish both manuals as soon as possible.

C.3.2.2. Audit Committee

Most UN organizations have established an Audit Committee.	148. The IIA defines an audit committee as the governance body that is charged with oversight of the organization's audit and control functions. These fiduciary duties are often delegated to an audit committee of the board of directors (II Practice Advisory 2060-2 of 2004). A similar definition has been developed by the government auditors in the INTOSAI Internal Control Standards. Presently, 16 out of 21 UN organizations have established an audit committee.
The General Assembly established the Independent Audit Advisory Committee.	149. In December 2005, the UN General Assembly in its resolution 60/248 decided to establish the Independent Audit Advisory Committee to assist the General Assembly in discharging its oversight responsibilities, and requested the Secretary-General to propose its terms of reference.
The Joint Inspection Unit already indicated in a 2006 report the need for a Review and Oversight Committee in the IAEA.	150. I noted that already in 2006 the Joint Inspection Unit (JIU) indicated in its report (JIUREP/2006/2) that the need for a Review and Oversight Committee for the IAEA was being considered and draft terms of reference of the Committee were being prepared. Again, in its report (JIU/2010/5) in 2010, the JIU reiterated the need for the establishment of an independent audit/oversight committee where it does not yet exist, to ensure coherence and harmonization in audit/oversight practices.
The former Director General already approved terms of reference for the Advisory Committee, but implementation did not materialize.	151. I noted that on 3 April 2003 the former Director General already approved terms of reference for an Advisory Committee on Oversight prepared by OIOS and reviewed by the Office of Legal Affairs (OLA). However, the creation of the Committee did not materialize. The Secretariat expressed its view that the IAEA's unique functions, compared with other international organizations, in such areas as nuclear safeguards and nuclear security, needs to be taken into consideration when this issue is addressed.

As an alternative, internal audit activities will be reported to Member States.

152. As an alternative to a creation of a new mechanism, the existing governance body of the Agency, namely the Board of Governors, could be fully and appropriately used. The Programme and Budget Committee could be used as a good opportunity for the Secretariat to report on its internal audit activities to Member States in an appropriate way.

I recommend the Agency create an Independent Audit Committee.

153. Despite the IAEA's unique functions I share the opinion of the General Assembly and the JIU regarding the need for an Independent Audit Committee. The Committee would examine the work plans of OIOS, review the budget proposals, and advise on the effectiveness, efficiency and impact of the audit activities and other oversight functions of OIOS and the External Auditor. As this goes far beyond informing the Board of Governors concerning internal audit activities, I recommend that the Agency create an Independent Audit Committee.

C.3.3. Review of activities of the Joint Staff Management Bodies (JSMBs)

I reviewed the activities of the Agency's sixteen JSMBs. The Joint Advisory Committee shows slow progress in important staff matters.

154. I reviewed the activities of the Agency's sixteen JSMBs for the years 2009 to 2011. In general, the JSMBs function well. However, I am of the opinion that there is room for improvement. For example, in 2009 the Joint Advisory Committee (JAC) convened three times, in 2010 six times and in 2011 only twice. Reviewing the minutes, I noted that some important staff matters have been discussed for up to 3 years, and yet a solution to these is still pending. For example, the agenda item 'Staff Participation in Recruitment' was first discussed in February 2009. The DIR of the Division of Human Resources (MTHR) informed me that this issue has now been covered in the revision of the AM, section AM.II/3, issued in January 2012.

Protection of personnel confidential information eventually addressed in 2012.

155. The issue of 'Protection of Personnel Confidential Information' was first taken up by the JAC in February 2009. Responding to my query, the DIR-MTHR stated that this issue was reviewed in conjunction with the revision of the AM.

Joint Appeals Board procedures still pending.

156. The JAC deliberated on the issue of procedures of the Joint Appeals Board four times, starting in February 2009. I was informed that a first draft of a revised policy was prepared by MTHR and initial review meetings have been held with OLA, the Secretary of the Joint Appeals Board and the Staff Council.

Provision of suitable rooms for insurance companies

157. The agenda item 'Provision of suitable rooms for insurance companies' was discussed beginning in November 2010. However, I was informed that space would only become available when the C building reopens in 2013. Meanwhile, an interim solution to this matter has been found.

Provision of a room for breastfeeding

158. On 20 May 2011, the JAC discussed a request from the staff for the provision of a room for breastfeeding. It was stated that this request was discussed for more than 2 years. Also in this case, the DIR-MTHR responded that space would be made available when the C building reopens in 2013. An interim solution to this issue has been found as well.

I recommend that JAC meet more often and that management accelerates its actions to solve staff problems

159. In my opinion, these important staff matters should be resolved more speedily. The staff would appreciate it if the Secretariat would act in a more proactive manner and bring the above-mentioned issues to a quicker solution. I recommend therefore, that the JAC convene more often and the Secretariat accelerate its activities in resolving staff problems.

C.3.4. Human Resources

Overview of my audit activities in the field of HR.

160. Since the beginning of my mandate, my staff have continuously examined the Agency's HR Management. I submitted a number of findings and recommendations concerning HR in my annual reports on the Agency's financial statements. Furthermore, I gave MTHR more detailed information in several audit observations. In this, the last report under my responsibility, I would like to give the Member States an overview of

- my activities in the field of HR,
- the actions taken by the Secretariat following my recommendations and
- the implementation status.

Additionally, I would like to focus on a topic that has not been addressed until now, namely the compatibility of the Agency's rotation policy (RP) with participation in the UN Joint Staff Pension Fund (UNJSPF).

Cooperation with the Agency has been constructive over the years.

161. Before going into more details, I would like to point out that cooperation with the Agency has been very constructive over the years. The objective of all my recommendations was to ensure that the Secretariat could fulfil the Member States' mandate in the most efficient way. The Secretariat did not agree with all my recommendations. Nevertheless our discussion of these issues has made a significant contribution towards reaching this objective.

C.3.4.1. Job description

The Secretariat plans to reduce the number of missing and out-dated JDs with the development of a generic system.

162. According to the Staff Regulations and Rules a 'post' authorizes the Agency to employ a person or a succession of persons for the performance of work required by the Organization. Each established post shall be classified and based on an official job description (JD). At the end of 2008, numerous established posts had no JDs or an out-dated one. Most of these were related to professional posts. The Secretariat pointed out that the JD system was under review at this time. In particular with the development of generic JDs, the existing gap should be closed in future (report 2008, paras. 144 – 148).

40% of the JDs are of a generic nature.

163. By the end of 2012, most JDs will have been updated. In both staff categories – general service and professional staff - currently 40% of the JDs are of a generic nature. I appreciate this development. The availability of generic JDs has a positive impact on the length of the recruitment process, in particular in the professional category (see paras. 183-188). I therefore recommend continuing this procedure.

C.3.4.2. Consultancy Contracts

In 2008 the Secretariat paid more than € 14 million in consultant fees. The consultancy contracts were often not in line with rules and regulations.

164. Between 2005 and 2008 the Agency paid on average more than € 7 million in consultancy contracts every year (excluding TC projects). Additionally, fees and travel costs for consultants engaged in TC projects amounted to a further € 7 million. In numerous cases, consultants had been recruited for purposes not in line with the Agency's rules and regulations (e.g. consultants had been recruited as clerks or assistants or as representatives of the Agency). Furthermore the Secretariat engaged consultants for years instead of recruiting regular staff (report 2008, paras. 149 – 157).

The expenditure for consultants amounted to 10 % of the salaries for professional staff.

165. The number of consultants and experts with Special Service Agreements (SSAs) rose continuously. In October 2011 there were 210 consultants with SSA. Accordingly, the total expenditure for short term consultants / experts increased disproportionately to the expenditure for actual staff. At about € 8 million in the year 2010, these costs reached approximately 10% of the salaries for professional staff.

Some consultants stay for several years and posts are kept vacant in order to fund them.

166. In several cases, consultants stayed with the Agency for more than two years. Furthermore, a number of posts have been vacant for years and were used to fund consultants.

The use of consultants exceeds the foreseen purpose. The Secretariat agreed to report annually on this issue.

167. In my opinion the use of consultants in the Agency all in all exceeds what was originally foreseen. The Secretariat agreed with my recommendation to report on the employment of consultants in the annual report 'Personnel - Staffing of the Agency's Secretariat'. Further consideration is being given to providing additional information that may be of use to the Board. In this report, not only the number of consultants should be stated, but also the expenditure incurred on consultants and the average duration of their SSAs.

C.3.4.3. HR Post and Contract Management - Temporary Assistance

The Secretariat's TA staffing practice was often not in line with the guidelines. In particular, many TA contracts exceeded the given time limits.

168. My examination of MTHR post and contract management in the year 2009 showed that the guidelines concerning the use of temporary assistance (TA) were ambiguous and sometimes inconsistent. As a result, the Secretariat's TA staffing practice was often not in line with the guidelines, e.g. the Secretariat appointed short-term TA staff with two different types of contract and in particular many TA contracts exceeded the given time limits (report 2009, paras. 140 – 151). The Office of Internal Oversight Services already addressed this problem in 2005.

Reform of the post and contract management – its completion was expected in 2010. I encouraged the Secretariat in its reform efforts.

169. In 2007, the Secretariat initiated a reform of the post and contract management system. As a first step, the Secretariat combined established and medium-term posts under one heading. The Secretariat wanted to finalize this reform in 2010. I encouraged the Secretariat's reform efforts and recommended a report on the measures taken, as well as the financial and management implications of the reform. Due to the fact that final stages of the reform were only able to be implemented after the completion of the following biennium budget cycle, the Secretariat will present the report to the Board in 2012.

I encouraged the Secretariat in its reform efforts.

170. I encouraged the Secretariat's reform efforts and recommended a report on the measures taken, as well as the financial and management implications of the reform, by the end of June 2011.

The Secretariat replaced the former FTA appointment by introducing a TA appointment.

171. In July 2011 the Secretariat introduced amendments to the provisions relating to the appointment of staff. In addition to Fixed-term (FT) appointments, which may be granted for periods each not exceeding five years to persons recruited for service of a prescribed duration, and which under certain circumstances can be extended to a so-called Long-term (LT) appointment, the respective Staff Rule now includes two types of temporary appointments namely a TA and a Short-term (ST) appointment. The TA appointment replaces the former FT temporary assistance (FTA) appointment, which will no longer be issued. Staff currently holding an FTA contract will continue on that appointment until its expiration.

The services to be performed by TA and ST staff shall only be required for a limited period of time.

172. TA appointments may be made for the purpose of staffing a project or other programmatic activity for which service is required for a limited period of time. They shall be made for a period of not less than one year and in no event more than five years. ST appointments shall normally not exceed 24 months in any 27-months period and the initial period of appointment is limited to a maximum of six months, subject to renewal.

In VNs for GS posts which require the same service, either a FT or TA appointment is offered. According to the Secretariat, this flexibility is necessary because it is not yet clear which GS position might become redundant after a full implementation of AIPS.

Renewing ST contracts several times causes unnecessary workload.

TA and ST appointments should only be offered if the special requirements relating to this type of appointments are fulfilled.

The report on the reform is still pending.

173. Since May 2011 the Secretariat advertises vacancy notices (VNs) for posts in the General Service staff category, which require the same service, as either a FT or a TA appointment. From my point of view, this advertising practice suggests that the work to be performed by temporary assistance staff is not of a temporary nature in all cases. According to the Secretariat, it is necessary to advertise GS posts in this way because it is not yet clear which clerical and administrative GS positions might become redundant after the full implementation of AIPS. The Secretariat therefore decided that FT appointments on established clerical and administrative GS positions should only be granted to staff already holding an FT appointment. The remaining staff/applicants should only be appointed on TA contracts in order to provide the Secretariat with the necessary flexibility.

174. Many ST contracts were renewed several times and exceeded the initial time limit for TA appointments of one year. Renewing contracts causes unnecessary workload. It should therefore be verified more closely in advance whether a ST or TA appointment is more appropriate. Due to the post management reform, the Secretariat foresees that the number of renewed ST contracts will decrease.

175. In principle I welcome the amendments to the provisions relating to the appointment of staff and in particular the implementation of the TA appointment. Nevertheless, before a post is advertised, it should be clear if the work to be performed is of a temporary nature or not, and if the special requirements relating to temporary appointments - either TA or ST - are fulfilled. In my view the type of appointment being offered should be clearly defined in the VN. The applicants have the right to know in advance what type of appointment is being offered to them. The Secretariat will consider amending the words used on the VN to clarify the circumstances which apply to each contract type.

176. The report on the reform which I recommended in my report 2009 is still pending. The Secretariat will present its report on this subject at the Board in June 2012. Therefore it remains to be seen what financial and management implications the reform will have.

C.3.4.4. Rotation Policy

The RP limits the employment of most P-staff to a maximum of seven years. Only about 40% have contracts beyond that time limit.

The RP has some avoidable negative effects on the performance of the Agency. The distribution of the LT-staff has been very uneven.

I recommended a more judicious mix of LT and FT staff, an increase of the informal benchmark and biennial reporting.

177. One of the main topics of our audit in the field of HR has been the Agency's RP (report 2009, paras. 152 – 171). The RP limits the duration of employment of most Professional staff (P-staff) to a maximum of seven years. Because the Agency's Statutes postulate that permanent staff shall be kept to a minimum, the Secretariat has established an informal benchmark of a maximum of 40% P-staff on LT contracts, which means employment beyond the seven years limit.

178. The RP has had some avoidable negative effects, such as the permanent loss of institutional memory. The distribution of P-staff on LT contracts in the past has been very uneven. The percentage has varied between 14% (Department of Nuclear Sciences & Applications) and 42% (Department of Management). Due to special needs related to the recruitment and retention of highly specialized staff, the Department of Safeguards always had a higher ratio of LT-staff (up to 57%).

179. I recommended reassessing the RP, in particular with regard to a more judicious mix of LT and FT appointments in all Departments, an Agency-wide common approach to LT-staff as well as introducing biennial reporting on the implementation, the associated costs and the benefits of the RP. The Secretariat agreed, or partly agreed, with my recommendations, but left open what specific measures it will take.

Since my report 2009 the situation remains largely unchanged. The first report on the RP is still pending.

180. Since my report 2009, the situation remains largely unchanged. The overall ratio of LT-staff remains at 39.5%. Also the distribution of LT-staff is still very uneven. In the scientific and technical Departments, such as Nuclear Sciences & Applications and Nuclear Energy, the ratio of LT contracts only slightly increased in the past two years, but continues to be much lower than 40% (see table below). Furthermore, the recommended biennial reporting on the RP is still pending.

Department	Percentage of LT-staff
Offices reporting directly to the Director General	20.00%
Department of Management	34.31%
Department of Nuclear Sciences & Applications	20.95%
Department of Safeguards	57.31%
Department of Technical Cooperation	27.12%
Department of Nuclear Energy	17.95%
Department of Nuclear Safety and Security	21.11%
Overall percentage	39.51%

Table 5: Percentage of P-staff on LT contracts (status: 1 October 2011)

The Secretariat still justifies the low ratio in the scientific and technical Departments due to the need to acquire the latest and more up to date experience. It is nevertheless reviewing this question.

181. The Secretariat still argues that the lower ratio of LT-staff in the scientific and technical Departments is justified due to the need to acquire the latest and more up to date experience. Notwithstanding this, the Director General initiated *'reviewing the balance of LT to FT ratios in all Departments to ensure that an appropriate balance be established between Departments, and to ensure that the Agency is always in a position to secure key staff on LT contracts within the requirements of the Agency's statute'*. Furthermore the Secretariat will submit the first report on the RP to the Programme and Budget Committee in May 2012.

I welcome the review of the balance of LT- to FT-staff ratios in all Departments. Because there is still room for improvement, I reiterate my former recommendations.

182. The Secretariat's justification for the lower ratio of LT-staff in the scientific and technical Departments is still not convincing. In these Departments this is not the only way to acquire the latest and more up to date experience. That could also be achieved, for example, by means of continuing professional education. In the scientific and technical Departments it is also necessary to keep key staff and institutional memory at a high level. I believe a ratio of LT-staff closer to 40% in these Departments would still be within the requirements of the Agency's statute. I welcome the review process that has been started and reiterate my former recommendations (see para. 179). Due to the fact that the first report on the RP will be published after the end of my mandate, I will advise my successor to keep this topic under review.

C.3.4.5. Recruitment of Professional Staff

Recruitment process for P-staff was neither efficient nor timely.

183. In 2010 my team examined the recruitment of P-staff focussing on the workflow and the time taken for the different recruitment actions (report 2010, para. 103 – 109). The drafting of the JD and VN (drafting JD/VN period) took 13.5 weeks on average, and the process starting with the advertisement of the VN up to the approval to appoint (advertisement/selection period) took 25 weeks on average.

Streamlining the recruitment of P-staff was in process. One objective is 'recruitment in 18 weeks'.

184. At the time my team examined the recruitment process, the Secretariat started to streamline the recruitment of P-staff. This was accompanied by the revision of the relevant section of the Administrative Manual. The target for the drafting JD/VN period is a maximum of 5 weeks, depending on the availability of a generic JD and the need to reclassify a post, and 18 weeks for the advertisement/selection period.

I encouraged the Secretariat in its streamlining efforts.

In 2011 the objectives were still far from being achieved.

185. I encouraged the Secretariat in its efforts and recommended reporting on the implementation and the effects of the streamlining process by the end of the year 2011.

186. Despite all the efforts of MTHR, the Secretariat's targets of 5 weeks for the drafting JD/VN period and 18 weeks for the advertisement/selection period are still far from being achieved. In 2011 the average duration was 15 weeks for the former period, which is even longer than before, and 23 weeks for the latter period (see table below):

Recruitment action	Target maximum duration	Average duration	
		2010	2011 (status: 2011-10-20)
Drafting JD/VN	2 - 5 weeks* (10 - 24 working days)	13.5 weeks	15 weeks
Advertisement/Selection	18 weeks (87 working days)	25 weeks	23 weeks

Table 6: Average duration of recruitment periods

*depending on the availability of a generic JD and the need to reclassify a post or not

The new recruitment guidelines and IT support were put into force in November 2011. A report on the streamlining process is announced for November 2012.

Meeting the objectives depends not only on a well-functioning IT but also on the responsible staff complying with the new guidelines.

187. The new recruitment guidelines were put into force in November 2011. By the end of that month, the Secretariat finalized the electronic implementation for the streamlining of recruitment. This includes a fully automated electronic scheduling of each specific selection process and automatically generated electronic reminders/follow-ups. The support of these new IT tools should assist the Secretariat considerably in meeting its objectives. Following the recent implementation of the relevant IT, the Secretariat expects to be in a position to provide a comprehensive report on the implementation and the effects of the streamlining process in November 2012.

188. I hope that the finalization of the new IT tools for the recruitment process will enable the Secretariat to meet its objectives. However, this depends not only on well-functioning IT, but also on the hiring managers and the MTHR staff complying with the deadlines of the new recruitment guidelines. Because a comprehensive report on the streamlining process will be provided at the earliest in November 2012, I will encourage my successor to follow up on this topic.

C.3.4.6. Contributions to the UN Joint Staff Pension Fund

Benefits from the UNJSPF require, in particular, contributory service of at least 5 years.

Due to RP approximately € 1.3 million per year is retained by the UNJSPF.

189. The UNJSPF was established to provide retirement, death, disability and related benefits for the staff of the UN and the other organizations admitted to membership in the fund. These benefits are paid under several terms and conditions, in particular they require contributory service of at least five years. The contribution to the UNJSPF is 23.7 % of the pensionable remuneration. The Agency's share is 15.8 %.

190. Professional staff of the IAEA are subject to RP. In the years 2000 until 2010 there were 453 cases of professional staff who did not complete five years of contributory service. These staff will only be paid a withdrawal settlement, equivalent to the participants' own contributions. In these cases the Agency's share of the contribution is retained by the UNJSPF. In the years 2000 to 2010 these contributions amounted to € 14.01 million - an average of approximately € 1.27 million per year.

A provident fund for staff serving less than 5 years would ensure that they could benefit from the organization's contributions.

191. To enable IAEA staff members who do not complete 5 years of service to benefit from the organization's contributions of more than € 1 million every year, I recommend considering an alternative for them such as joining a provident fund, following the example of other organizations which are subject to RP. Entities such as the Organisation for Security and Cooperation in Europe and the Organisation for the Prohibition of Chemical Weapons follow this model.

C.3.5. Project Management

There is a lack of cross-organizational project co-ordination. Some decisions were based on incomplete information and consequently led to uneconomic investments.

192. During our examinations in the past, my team made a recurrent finding concerning large cross-organizational projects. At the time when important decisions had to be made, involving cost-intensive long-term contracts, senior management responsible for taking decisions was not always fully provided with all essential and most recent information. A proper information exchange between project managers was lacking, even in cases where the projects concerned were dependent on each other.

Some decisions were based on incomplete information and consequently led to uneconomic investments. In some cases the Secretariat's approach of using 'domain-specific groups' to coordinate projects failed.

Examples of a lack of co-ordination in three projects.

193. An example of the lack of Agency-wide project co-ordination was the management of three projects related to the Toronto Regional Office (TRO):

- The lease contract for the TRO was due to expire at the end of 2008. At the end of January 2008 a Canadian Company carried out market research on behalf of the Secretariat and produced a report providing a survey of possible alternative properties. The research work started in August 2007 and was based on the size of the Office and the number of staff at that time.
- Focussing on the need for security enhancements at all IAEA sites, a project called 'Security Enhancement to the IAEA Regional Office in Canada' was carried out by the TRO with the same Canadian Company as project leader. This project was carried out after the new lease contract for the period 2009 to 2013 had been signed.
- At the same time, the Secretariat was conducting a detailed review of the future role of the TRO. This study was completed in April 2008 and as a result of the conclusions reached, the staff of the TRO were substantially reduced.

The most significant decision was not taken into account by the other projects.

194. The considerations concerning the future role of the TRO were, however, neither taken into account in the review of office space options and nor by the security enhancement project. An appropriate reduction of the office space as a consequence of the decision to reduce staff would surely have had an influence on the contractor's market survey. A reduction in office space would also have meant lower costs for the security enhancement measures.

Unnecessary expenditures and higher annual costs occurred due to a lack project co-ordination.

195. The three projects mentioned above were clearly not properly co-ordinated. The basic decision on the future role of TRO should have been the first step on which the other projects were dependent. The failure to take the staff reduction into account has resulted in unnecessary initial expenditures and higher annual costs at least for the five year period of the new lease.

Secretariat agreed with my findings and recommendations.

196. The Secretariat agreed that 'the existing governance mechanisms can be improved'. 'The Secretariat will, build on already started activities implementing international best practices, take additional steps to improve its organizational project and portfolio management capabilities.' My recommendation regarding a useful 'Project Co-ordination Committee' was referred to Director General's Meetings.

Recommendation

197. I encourage the Secretariat to continue to follow international best practice and to take a more holistic approach to the management of cross-organizational projects. Decisions based on incomplete information need to be avoided in future. Since *'domain-specific groups'* are not bound to take such a holistic approach, I recommend improving the existing mechanisms, perhaps by creating a 'Project Co-ordination Committee'.

C.4. Safeguards/Nuclear Energy

C.4.1. Low Enriched Uranium Bank

The IAEA plans to install and operate its own LEU Bank.

198. According to the decision taken by the IAEA Board of Governors in December 2010, the IAEA plans the installation and operation of a LEU Bank. The purpose of the LEU Bank is to ensure a supply of nuclear fuel for Member States even when there are restrictions on delivery in the commercial market. The Secretariat has to facilitate the secure and safe operation of this LEU Bank.

My team conducted an examination of the risk management.

199. Due to the complexity of such a project, my team conducted an examination of the Secretariat's risk management concerning this endeavour. The results of this examination lead me to express my concerns relating to potential risks, their assessment and the countermeasures being considered by the Secretariat.

A comprehensive response on potential risks is vital.

200. In order to obtain maximum benefit for the Member States and to reduce risks in the operation of such a facility, I strongly recommend that the Secretariat increase its efforts to counter the considerable risks related to an Agency-operated LEU Bank more comprehensively and efficiently.

The LEU Bank is intended to back up the commercial market.

201. The IAEA LEU Bank is dedicated to supplying nuclear fuel to Member States which experience a disruption in the supply of LEU to a nuclear power plant 'due to exceptional circumstances impacting availability and/or transfer and (when a Member State) is unable to secure LEU from the commercial market, State-state arrangements, or by any other such means ...'.

The IAEA shall be responsible for LEU in an Agency-owned Fuel Bank.

202. The LEU Bank is characterized by the following features:

The IAEA shall

- have formal legal possession of the LEU;
- have the LEU under its control and shall therefore be responsible for storing and protecting the materials in its possession;
- ensure that the costs of all requirements associated with the operation of the IAEA LEU Bank will be covered exclusively either by the pledges made by Member States and the Nuclear Threat Initiative, which total approximately US\$ 150 million or by additional voluntary contributions of funds and services accepted by the Director General;
- identify a Host State of the IAEA LEU Bank which will have in place an adequate nuclear regulatory and legal framework that provides for nuclear safety and nuclear security measures;
- ensure through a Host State Agreement that the LEU is safeguarded against natural and other hazards, unauthorized removal or diversion, damage or destruction, including sabotage, and forcible seizure;
- ensure through a Host State Agreement the application of IAEA safeguards to the LEU in the IAEA LEU Bank;
- ensure through a Host State Agreement the application of safety standards and measures, and of physical protection measures taken by the Host State or States.

The Nuclear Fuel Bank shall be located in an Asian Member State; no permanent presence of IAEA staff is intended on site.

I foresee considerable financial and operational risks and risks caused by external influences.

The Secretariat shows great responsibility and has made considerable efforts to establish a risk management framework for this initiative.

203. The LEU Bank aims at storing low enriched uranium hexafluoride in quantities of up to 150 tons in an Agency-owned and -operated storage facility. The IAEA LEU Bank is planned to be operated in a Central Asian Member State. A permanent presence of IAEA staff on the site is not envisaged. The operational handling of the material is expected to be conducted by personnel from the host nation. The initial financial amount required to launch the LEU Bank is approximately US\$ 150 million.

204. I considered possible risks for the IAEA that may arise from the operation of such a facility under the given circumstances. In particular, I would like to emphasize the following areas of risk:

- Given IAEA's lack of prior experience as an active participant in the nuclear fuel market, the Agency may not be able to procure the fuel at the best price.
- IPSAS accounting requires valuation at the lower of cost or net realizable value of assets at 31 December of each fiscal year; values would be based on the spot market and this may result in unforeseeable notional profits or losses on the stock to be reported each year.

Certain operational risks such as radiation accidents/incidents during storage and on-site transportation for shipping may also be foreseen. Furthermore, external influences such as natural disasters, accidents, criminal activities, as well as political instability in the host nation, however remote the possibility, must be acknowledged as risks and planned for accordingly.

205. I very much appreciate the efforts the Secretariat has made to anticipate all eventualities in creating and operating a LEU Bank. The Secretariat shows great responsibility in meeting all risks that could become threats for the IAEA. The Secretariat informed me that:

- The IAEA has a risk management system in place;
- The current risk register which identified high risk areas also included the LEU Bank. Work is continuing on ways and means of addressing and mitigating these risks;
- The Secretariat has developed a procurement plan in accordance with the Agency's procurement procedures to buy uranium in a manner that should cause minimal disruption of the market price;
- A model agreement between the IAEA and the client (Member State) specifies the financial arrangements between both business partners. Member States shall effect payment for the LEU and all costs that may arise in connection with the delivery of the LEU in full and in advance to the IAEA;
- Kazakhstan submitted to the Secretariat its 'Expression of Interest' in which it proposed two sites to host the IAEA LEU Bank for the consideration of the Secretariat;
- The Agency's internal support costs, including the provision of staff, for the IAEA LEU Bank project are being managed using a work package mechanism, otherwise known as a fee-for-service approach, to ensure that all costs are properly identified, effectively managed and recovered from the extrabudgetary funds for the IAEA LEU Bank;
- A financial plan covering the estimated costs to establish the IAEA LEU Bank has been drafted by the Secretariat. Actual costs will depend on the price of LEU or its components (natural uranium, conversion and enrichment services), upgrades to a host site, and other related expenditures;
- If shortfalls are expected in the budget, the Director General will notify the Board of Governors of the current financial situation and provide an estimate of future expenses, and recommend action to raise funds to cover any such shortfalls; The Director General may accept additional voluntary contributions of funds and

	<p>services to cover the costs of all requirements associated with the operation of the IAEA LEU Bank;</p> <ul style="list-style-type: none">- For nuclear material accounting and verification purposes, the physical premises of the IAEA LEU Bank, designated as a 'material balance area', will make it possible to determine each transfer of LEU in and out of the area as well as determining and verifying the inventory of nuclear material stored in the IAEA LEU Bank. The Agency will ensure that the site operator provides regular material balance, and safety and security status reports to the Agency; <p>For the storage of LEU at the IAEA LEU Bank, the nuclear safety and security requirements, emergency preparedness and response procedures, and liability provisions, will be included in the Host State Agreement and in the agreement with the site operator. In addition, the Host State Agreement will include provisions concerning liability for nuclear damage;</p> <ul style="list-style-type: none">- The Host State Agreement furthermore will require that the appropriate Host State authorities exercise due diligence to ensure that the IAEA LEU Bank is not disturbed by any person or group of persons attempting unauthorized entry into, or creating disturbances in the immediate vicinity of the IAEA LEU Bank, and to provide on the boundaries of the IAEA LEU Bank such detection, delay and response measures (e.g., guards, police) and other protection as may be required during handling, transportation and storage at all the locations, and the vehicles used. Furthermore, the Host State Agreement will also require that the appropriate Host State authorities provide, if requested by the Director General, sufficient protection measures for the preservation of law and order at, and in the vicinity of, the IAEA LEU Bank;- The host state agreement shall remain in force until it is terminated;- A customer Member State shall have in force a comprehensive safeguards agreement with the IAEA and the IAEA shall satisfy itself that there has been no diversion of declared nuclear material and reflect this in its most recent Safeguards Implementation Report.
Additional questions on potential risks need to be answered.	206. Notwithstanding the above assurances, I see the need for the procurement of fuel at the best price in the international nuclear fuel market to be carried out by, or with the participation of the Office of Procurement Services, according to IAEA procurement norms and to ensure that the proliferation risk is addressed.
The host nation bears responsibility for the operation of such a facility to a considerable extent.	207. According to the 'Host State Agreement', the host nation bears responsibility for the operation of such a facility to a considerable extent. However, there might still be some residual risks such as: <ul style="list-style-type: none">- Disappearance of LEU material from the site;- Proliferation of LEU owned or sold by the IAEA;- Nuclear accidents/incidents on an IAEA-operated nuclear facility and with IAEA-owned nuclear material.
Despite agreements with the Host Nation, the IAEA is and remains responsible for all material and operations of the Agency-owned LEU Bank.	208. Despite the host state agreements, site operator agreements and model supply agreements, the IAEA remains responsible for all dangers arising from the operation of an Agency-owned LEU Bank, at least in the perception of a worldwide public. Proliferation-related incidents in a 'nuclear watchdog' facility, or accidents with nuclear material owned by the Agency which 'promotes safe, secure and peaceful nuclear technologies', could become a public image disaster.
Risk management of the Secretariat currently in place needs further strengthening	209. I believe that the risk management of the Secretariat currently in place needs further strengthening in order to meet all areas of major risk in a satisfactory manner.
Comprehensive risk management for the LEU remains a	210. I urge the Secretariat to continue to strengthen its comprehensive risk management plan, to identify all potential dangers, to assess them and to develop strategies to mitigate them. I further recommend conducting studies on:

challenging task for the IAEA.

- The impact of IAEA as an active participant in the nuclear fuel market (influence on the market - risks for the Agency);
- Site safety and security;
- A sound financial and budgetary framework for sustainable operation of the bank in the foreseeable future.

The project should be executed with lowest possible risk and without undue time pressure being placed on the Secretariat.

211. Given the scope and extent of work required to be accomplished by the Secretariat in establishing and operating this LEU Bank, it should be ensured that the project is executed without undue time pressure being placed on the Secretariat. In the interests of the Member States as well as the Secretariat, the IAEA should install and operate the LEU Bank minimizing the risks for the organization.

C.4.2. Integrated Safeguards

In 2002 the Secretariat introduced the concept of integrated safeguards.

212. In 2002 the Secretariat presented a concept of integrated safeguards to the Board of Governors. This concept was considered to represent a more efficient and effective approach to the implementation of strengthened safeguards. On the occasion of the tenth anniversary of the integrated safeguards concept, my team conducted a review of the programme. Despite some progress made during the ten years following the launch of the programme, the Secretariat has not been able to identify savings in a transparent and comprehensible manner.

Integrated safeguards should result in a reduced burden of inspection.

213. Integrated safeguards were intended to reduce the IAEA's safeguards inspection efforts. It was initiated in the light of prevailing resource constraints. According to the Secretariat, Member States participating in the programme would also benefit from a reduced burden of inspection on governments and facility operators.

The system should provide assurance regarding the non-diversion of nuclear material and the absence of undeclared nuclear activities.

214. The strengthened safeguards system should provide credible assurance regarding the non-diversion of nuclear material from declared nuclear activities and, at the same time, on the absence of undeclared nuclear material and activities. Prerequisites for States to participate in integrated safeguards are a comprehensive safeguards agreement and that an additional protocol is in force.

The External Auditor appreciates efforts to strengthen economy, efficiency and effectiveness.

215. The External Auditor always welcomes initiatives by the Secretariat to increase the economy, efficiency and effectiveness of the Agency's activities.

Criteria for the success of such a project are:

- Safeguards performance is improved without the need for additional resources;
- Safeguards performance is maintained on the same level, but the required resources decrease;
- The benefits for all parties should be in a reasonable relationship with the financial and/or human resources needed to launch the project and to operate it;
- In order to measure improvements, resources needed to launch and operate the project should be measurable, as well as the benefits for Member States and/or the Secretariat resulting from the project.

My audit's focus was on effectiveness, efficiency, savings and costs.

216. The main focus of my team's audit was on the following questions:

- How were economy, efficiency and effectiveness of the programme developing?
- How were potential savings to be utilized?
- How did the programme influence the costs for inspection equipment?

The Secretariat described the impact of integrated safeguards.

217. At my request, the Secretariat provided information on the effectiveness, efficiency and savings of integrated safeguards ten years after launching the programme.

The Secretariat explained that

- it regards integrated safeguards as a major challenge that has absorbed considerable resources, not only within the Secretariat but also in Member States;
 - it did not consider itself to be in a position to assess the efforts made by Member States;
 - it believes that the implementation of integrated safeguards and the promotion of the use of technology, with an associated reduction in inspector presence, created a higher demand for remote monitoring systems to be installed in Member States;
 - it has introduced an improved cost calculation methodology for the implementation of safeguards. This cost calculation model was used for the first time in the Safeguards Implementation Report 2010 to calculate safeguards costs by State in a consistent manner;
 - it sees the effectiveness of the programme improved through tailoring safeguards approaches to the specific circumstances existing in each State;
 - considers that efficiency has been increased through
 - o increased assurance of the absence of undeclared nuclear material and activities, so that changes in frequency could be implemented – for irradiated fuel, from three months to one year; for fresh MOX fuel assemblies at light water reactors (LWRs), from one to three months;
 - o use of random interim inspections, particularly those giving short or no notice, where such inspections have been accepted by the Member States;
 - o reduction in verification requirements for less proliferation-sensitive types of nuclear material;
 - o increased cooperation with State Systems of Accounting for and Control of Nuclear Material;
 - the measures above have resulted in inspectors spending fewer days in the field for certain verification activities, as well as in a reduction in the frequency of inspections. Nevertheless the Secretariat could not provide figures on savings in person-days of inspection (PDIs) for the years 2003-2004. For the years 2005-2010 it could report estimated savings in PDI;
 - in 2010, of the 47 States under integrated safeguards, 19 had power reactors under safeguards with an average annual inspection effort of 8.2 PDI. Power reactors under safeguards in the 13 States not under integrated safeguards required an annual average of 27.6 PDIs per facility;
 - there has been a reduction of inspection effort in the field resulting from the implementation of integrated safeguards activities. The introduction of new facilities, evaluation of additional protocol declarations, information analysis and State evaluations have, however, substantially increased the workload at Headquarters;
 - the main area for reducing costs of equipment under integrated safeguards relates to LWRs, where continuous surveillance has been replaced by unannounced inspections. However, a number of States have not yet accepted inspections, including several States with large LWR programmes. Surveillance has been left in place in these States, so savings have not been as great as they might have been;
 - many remote monitoring systems were installed prior to the States concerned coming under integrated safeguards;
 - with remote monitoring systems, inspector days in the field can be reduced.
- At the same time, economy in PDIs is partially offset by the need for equipment

The Secretariat sees the need to make further improvements.

maintenance in the field, and by the additional work at Headquarters in evaluating the information transmitted.

218. According to the Secretariat, 'with integrated safeguards the Agency began a program directed at providing the most efficient means to realize the full effectiveness of the strengthened safeguards system...'. Although there have so far been significant savings, the Department of Safeguards has recognized the need to improve further, by shifting its resources away from safeguarding large nuclear fuel cycles in States of low proliferation risk, so that it can do more in States of real proliferation concern.

Integrated safeguards could lead to a verification regime more focussed on areas of concern.

219. Integrated safeguards take account of the additional assurances provided under an additional protocol which defines an optimized combination of safeguards measures available to the Agency under comprehensive safeguards agreements, and under additional protocols designed to maximize effectiveness and efficiency within available resources. Further development and implementation of a State-level concept which encourages approaches that are more objective-based than criteria-driven, and which takes into account additional State-specific factors, will allow verification activities to be more focussed on areas of concern.

Ten years after the launch, the Secretariat is not able to supply hard facts on the development of integrated safeguards.

220. The Secretariat

- is aware that launching and operating integrated safeguards absorbs considerable resources but is, even ten years after initiating the programme, not able to quantify the resources required for it, neither on the part of the Member States, nor on the part of the Secretariat;
- believes that the promotion of technology in integrated safeguards has resulted in a reduced inspector presence, but cannot provide statistics which would substantiate that;
- introduced an improved cost calculation which could make the cost of introducing integrated safeguards more transparent, but only eight years after launching the programme;
- provides only estimates of savings in PDIs but no actual figures or data;
- describes some potential savings in different fields but does not quantify them;
- did not quantify the impact of integrated safeguards on the costs incurred for inspection equipment.

The External Auditor appreciates the Secretariat's initiative, but regrets a lack of hard facts and figures.

221. I appreciate the Secretariat's initiative to strengthen the efficiency and effectiveness of Safeguards with the integrated safeguards programme. I share the Secretariat's optimism that the programme could enable verification activities to be more focussed on areas of concern. Nevertheless, I regret the absence of hard data on the resources - human as well as financial - spent on initiating and operating integrated safeguards in the IAEA and in the Member States.

Better control is needed to achieve greater transparency.

222. I urge the Secretariat to establish a comprehensive controlling system that could make such an important programme more transparent. This would enable the Secretariat to quantify the success it has realized in hard figures. Unfortunately, the Secretariat does not have such a controlling system in place. I recommend that the Member States request reports on the progress of integrated safeguards on a regular basis and in a transparent and comprehensible manner.

C.4.3. Confidentiality

Weaknesses in information security in the Agency need to be addressed by the Secretariat

223. During the past years my team observed that confidential information was in several cases handled carelessly in the IAEA. The repeated and uncontrolled leak of information from the Agency could lead to a loss of credibility and reputation for the IAEA. I urge the Secretariat to take all measures necessary to avoid this. Appropriate rules and regulations should be adapted and applied where necessary. Information security should be considered an essential part of a comprehensive risk management for the IAEA.

My team observed many cases of careless handling of classified documents.

224. My staff observed violations against various confidentiality rules and regulations in several areas of the Secretariat, at all staff levels and on almost all floors. For example:

- Documents marked 'RESTRICTED' were thrown into openly accessible paper bins;
- Classified documents were left in floor printers for minutes or up to several hours, or sometimes forgotten in the printers;
- Stacks of reports marked as 'CONFIDENTIAL' were left in openly accessible offices without caring who came into the office, and leaving the office with an open door;
- Classified documents were passed to third persons without having verified whether he/she was authorized to have access to such information.

GovAtom offers access to restricted information on a very unrestricted basis.

225. The intranet portal GovAtom contains documents marked 'Restricted Distribution', such as reports by the Director General on issues related to safeguards. Approximately 2,300 Agency staff members and 1,600 parties outside the Agency have access to GovAtom. These parties are staff from Member States' Permanent Missions and individuals from Member States who have requested access via their relevant Permanent Missions. Access to GovAtom is authorized by the Secretariat and was given to approximately 4,000 persons. I believe this is in conflict with the Agency's information security policy which requires that confidential information should only be available on a need-to-know basis. I do not see the necessity for all GovAtom information to be accessible to all 2,300 Agency staff members plus 1,600 other parties.

Confidential information repeatedly leaked out to media. Member States are concerned about information leakages.

226. Confidential information has repeatedly leaked out to the press. In recent years various media publications have referred to obviously internal IAEA sources. In one case, a document, apparently of IAEA origin, was quoted in a press release. In another, observations which IAEA inspectors might have made in a Member State during a safeguards inspection mission were reported in a newspaper. In the latter case the Member State in question expressed in a *note verbale* its concerns over these obvious information leakages from the IAEA to the public. Several other cases of information leakage are known.

Retired senior management staff gave public statements.

227. Two former senior management staff members of the Department of Safeguards have made statements in public on subjects they were dealing with during their time of active service with the Agency.

The Agency Statute, as well as rules and regulations, provide strict and clear guidance on security policy.

228. The Agency's Statute, rules and regulations relating to information security are clear and mandatory. The Statute demands:

'In the performance of their duties, the DG and the staff ... shall not disclose any industrial secret or other confidential information coming to their knowledge by reason of their official duties for the Agency. ...'

Safeguards Agreements between Member States and the Agency in connection with the Treaty on the Non-Proliferation of nuclear weapons, include the obligation

'... to protect commercial and industrial secrets and other confidential information coming to its knowledge ... shall not publish or communicate to any State, organization or person any information obtained ... activities of the Agency inspectors shall be so arranged ... to ensure protection of industrial secrets or any other confidential information coming to the inspectors' knowledge.'

Staff rules and regulations state that:

'The Information Security Policy formulates the obligation that staff and all those who have contractual relations to the IAEA have in preserving the confidentiality, integrity and availability of information...'

'When not in use, all classified documents must be locked away in a secure manner appropriate to its security classification. [...]

All staff in the Agency have to sign a 'Confidentiality Undertaking for Staff Members On Appointment'. This contains the obligation *'... not to disclose at any time during or after my employment with the Agency any confidential information which come to my knowledge in connection with my employment with the Agency.'* A breach of this obligation may result in the imposition of disciplinary measures.

The Secretariat is aware of threats to information security and has taken measures to counter them.

229. With regard to this issue the Secretariat informed me as follows:

The Department of Safeguards has in place a comprehensive set of relevant information security policies and procedures with strict and comprehensive controls that reflect the Department's requirements. All new inspectors are trained and tested in information security. When travelling, staff are provided with appropriate equipment with which to protect classified data.

The Department of Safeguards recognizes that threats to information security are constantly changing and becoming more sophisticated. The Department is employing best practice technologies and procedures in all areas of information security. The Secretariat is working on a significant reduction of authorizations for access to GovAtom, but wants to continue the unrestricted accessibility of GovAtom information to all staff members.

A strict information security policy is essential to the credibility of the IAEA.

230. The Secretariat points out that information from the IAEA could be leaked to the public by persons other than IAEA staff members. Persons from outside the Secretariat, but familiar with IAEA, could also be sources of information leakages. To raise awareness among Agency staff of the need to protect confidential information when speaking to journalists, the Director General approved in 2010 a new and more prudent Policy on Relations with the Media. In September 2010 the Agency issued a revised and more detailed version of this, as a direct response to the problems caused by some retired managers. In addition, OIOS has investigated matters relating to the alleged leakage of confidential information.

A comprehensive understanding and application of information security policy is needed

231. The Secretariat is aware of the problems that could arise for the Organization from the careless handling of classified information. Several steps in the right direction have now been taken. Nevertheless, there still remains a long way to go to achieve a comprehensive understanding and application of information security policy.

C.4.4. Agency's Laboratories at Seibersdorf

The Secretariat has almost finished the comprehensive protection system for Seibersdorf laboratories.

In 2004 my security-related focus was on several weaknesses in the physical protection of the Seibersdorf premises.

The Secretariat and UN Safety and Security Services shared my concerns.

The Secretariat has fundamentally improved the security situation at laboratory complex in Seibersdorf.

Only a few points remain to be resolved in the near future.

232. In my first report for the year 2004 as External Auditor, I expressed my serious concerns on the security situation of IAEA's Safeguards Analytical Laboratory (SAL) compound. In my last report I am happy to be able to state that the Secretariat has almost finished a comprehensive protection system for the physical security of the complex.

233. In 2004 my concerns were particularly focussed on

- the perimeter fence around the premises did not provide adequate protection;
- access control to the premises conducted by non-UN security staff was insufficient;
- the permanent presence of an Austrian police post at the premises was not ensured;
- an adequate surveillance system for the fence and the areas in front and behind it had not been installed;
- the existence of parking lots in the immediate vicinity of the SAL, together with the inadequate anti-shatter quality of the windows of the laboratory complex, presented a potential threat to staff, buildings, inventory and operations.

234. The Secretariat and the UN Safety and Security Services shared my concerns and promised to remedy the recognized weaknesses of the security system. In the past eight years I have regularly referred to the security situation in Seibersdorf in my reports.

235. Since then remarkable progress has been made by the Secretariat, generously supported by one Member State. A massive concrete fence was completed in 2010. It constitutes an effective vehicle barrier. An effective lighting system has been installed. A video assessment component for surveillance purposes is in the procurement phase and should be operational by the end of 2012. Due to lack of manpower, the site access is only controlled at the outer gate by non-UN personnel. The presence of Austrian police is ensured by the Austrian government. Their duties include the observation of the outer perimeter by patrolling. All outer glass surfaces in the buildings have been equipped with anti-shatter foils. The parking lots in front of the SAL have been blocked with big stones. Currently all cars and persons already on the site of the Austrian Institute of Technology can enter the IAEA site. The outer skins of all laboratory buildings have been equipped with an access control system. A situation compliant with relevant UN/IAEA regulations is planned to be operational by 2013/2014.

236. I am very pleased that the Secretariat shared my concerns on this matter from the beginning and has consequently taken action to improve the security situation fundamentally. I am convinced that the open issues, an effective access control to the IAEA premises and a state-of-the-art monitoring system for the perimeter, will be resolved in the near future.

C.5. Nuclear Safety and Security

C.5.1. Incident and Emergency Centre

Considerable improvements have been made in the functioning of the IEC.

237. In my reports 2008 and 2009 I already took up the matter of the Incident and Emergency Centre (IEC). At that time I noted weaknesses in training, drills, funding and support by management. Concerning the activities of the IEC, I noted that, following the Fukushima accident, considerable improvements have been made.

The Agency doubled the regular budget funding.

238. The main improvement following my 2008 report was the fact that the Agency more than doubled the regular budget funding for the IEC, as shown in the table below:

2009 €	2010 €	2011 €	2012 €	2013 (estimated) €
1,421,603	3,207,742	3,453,376	3,542,488	3,535,085

All Departments relevant staff JDs should contain IEC support clause.

239. In addition, the number and quality of in-house training sessions and exercises were enhanced. I also noted that the Department of Nuclear Safety and Security (NSS) made it easier to request skilled personnel, either for training purposes or in case of an emergency. NSS added IEC requirements to the relevant JD. This was only done for NSS staff.

I recommend that the JDs of all relevant Agency staff be changed accordingly.

IEC conducted an Internal Feedback Report of the Fukushima accident.

240. The IEC conducted a thorough review of its own activities during the Fukushima accident by preparing an internal feedback report in January 2012. This report covered the following topics:

- Information Management
- Shift Planning and Implementation
- Training and Exercises
- HR and Management Issues
- IEC Resources and other IEC Arrangements

I recommend initiating an action and implementation plan.

241. This report identified weaknesses that occurred during the emergency situation. I recommend continuing with the action and implementation plan started in 2011 in order to eliminate the deficiencies identified as soon as possible.

C.5.2. Office of Nuclear Security (ONS)

ONS spent nearly € 60 million from 2007 to 2010.

242. As one consequence of the 9/11 event, extra-budgetary funding of the Nuclear Security Fund by Member States increased dramatically. The balance of income and expenditures of the Nuclear Security Fund in the last four years according to the Agency's financial statements were as follows:

	2007 EURO	2008 EURO	2009 EURO	2010 EURO	Total EURO
Income	17,758,000	7,600,000	21,067,000	16,390,000	62,815,000
Expenditure	12,694,000	18,205,000	14,170,000	13,997,000	59,066,000
Balance	5,064,000	-10,605,000	6,897,000	2,393,000	3,749,000

The programme focussed on the prevention of illicit trafficking.

243. One focus of this programme was on the prevention of illicit trafficking of nuclear materials over the borders. In the view of the donors and ONS, an effective method to prevent illicit trafficking is to equip the points of entry with Radiation Portal Monitors (RPMs) and handheld devices.

I reviewed the ONS activities on border monitoring projects.

244. My staff carried out several audits of border monitoring projects in several Member States as examples of the project management of the ONS. Our findings and recommendations were related to different issues, e.g., the policy of the IAEA on:

- International cooperation
- Cooperation with neighbouring countries
- Financial rules and regulations
- Technical questions.

Specifically, my recommendations involved issues such as project planning and implementation, prioritization of project funding and site design.

I noted ONS has started to restructure its project management.

245. I am pleased to note that the ONS has started a complete overhaul of its project management. For example, the ONS implemented the '*Complex Nuclear Security Project Plan*' and the '*Process Flow Diagram – Complex Nuclear Security Projects*'.

The new process flow diagram clearly describes the responsibilities for

- Project Administration
- Project Definition
- Project Scope Acceptance
- Procurement Implementation and Management
- Sustainment Assurance.

I recommend that ONS adopt the new management process.

246. I was also informed that there is an ongoing discussion on how to improve ONS' internal management processes. I recommend that ONS accelerate its activities to adopt the new management process.

C.6. Technical Cooperation

Since 2005 my team has audited the Agency's implementation of TC projects and its participation in the UNDAF process.

247. In the TC area my team audited the Agency's participation in the UNDAF process. Furthermore, it audited the design and implementation of national TC projects and TC projects in the context of regional agreements. To that end, it carried out eight field missions covering 20 countries.

C.6.1. Cooperation in the UNDAF process

The IAEA Director General is sharing responsibility for the operational guidelines in the UN development area.

248. The promotion of development and economic and social progress is one of the central mandates of the UN. As much as 70 percent of the UN system's work is devoted to development. As a member of the UN system's Chief Executive Board, the IAEA Director General is sharing responsibility for operational guidelines in the UN development area.

The UNDAF provides an integrated UN system response to national priorities and needs.

249. The UNDAF process is a UN reform that aims at ensuring greater coherence and coordination of the many UN agencies' activities at the country level. The UNDAF provides a collective and integrated UN system response to national priorities and needs, in order to better achieve the 'Millennium Development Goals'.

The UNDAF process is intended to ensure that TC projects better address the most urgent needs of Member States.

250. The UNDAF is intended to ensure that TC projects better address the most urgent needs of Member States. As my audits of the last years showed, not all TC projects were dedicated to those needs. In some cases TC projects were very similar to projects of other UN organizations. In other cases, the TC project did not conform to the country's development priorities, or the scope of TC projects was affected by the CPs' scientific interests.

Over the last years the Agency has intensified its UNDAF participation.

251. The audits of past years demonstrated that the Secretariat did not use all its possibilities to achieve a satisfactory degree of cooperation in the UNDAF process. The findings of the 2008, 2009 and 2010 field missions supported my conclusion. By the end of 2010, out of 104 countries where the Resident Coordinator (RC) leads the UNDAF process, the Agency had signed only 14 UNDAFs. Beyond that, it participated in 31 on-going or planned processes and outreaches. At that time I had recommended that the Secretariat should ensure extended and intensified participation in the UNDAF process in all regions. The Secretariat stated in November 2011 that all TC Regional Divisions had been instructed to actively participate in on-going UNDAF processes.

I highly appreciate the improvement in UNDAF participation in 2011.

252. Though the Agency has signed only 24 UNDAFs in all regions so far, there is now participation in 81 on-going or planned processes and outreaches to the RC and the UNCT. 94 Briefing Notes were prepared. I highly appreciate the improvement in UNDAF participation in 2011.

The Agency developed a systematic approach to inform the UNCTs about its capabilities.

253. In my 2010 report I recommended that in order to achieve closer cooperation with the UNCT, the Secretariat should define the objectives and results of every outreach. The Secretariat stated at that time that focussed efforts were under way to ensure that RCs were aware of the Agency's Technical Cooperation Programme (TCP). Accordingly, the Agency developed a systematic approach for outreaches. In this approach the Agency prepares Briefing Notes on possible TCP contributions to UNDAF outcomes as basic information for the UNCTs. Those Briefing Notes are of the utmost value in the UNCT Prioritization Retreat at the beginning of the UNDAF process.

I appreciate the steps taken and believe the Agency is on the right track.

254. The presentation of the Briefing Notes on such occasions can promote the discussion on how the Agency and other UN organizations can contribute to each other's development projects. I therefore appreciate the steps taken and believe the Agency is on the right track.

Need to synchronize projects in the UN

255. The Agency does not yet know how UNDAF-related TC projects can best be synchronized with the project substance of other UN organizations.

The best approach for synchronizing TC projects with the work of collaboration partners is not yet known.

256. The Secretariat should use its influence to ensure that the Agency strives towards joint programming with other UN organizations in the long run. The Agency should also make efforts towards the harmonization of the Common Country Assessment and the Country Programme Framework (CPF). Furthermore, experiences and ideas should be exchanged with other non-resident agencies involved in the UNDAF process.

Participating in UNDAFs where possible has become a priority task for Programme Management Officers.

257. In January 2010 the Agency maintained that participating in UNDAFs where possible has become a priority task for Programme Management Officers (PMOs). Actively participating in UNDAFs, preparing Briefing Notes and presenting the TCP to RCs on location would continue to be standard practice for years to come, so that in the futures solid partnerships can be forged at the country level. Even though the Technical Cooperation Strategy and Partnership Section (TCSPS) strives to assist each PMO in a systematic approach to engage with UNCTs, this depends on the willingness of the TC Regional Divisions to adopt this approach. TCSPS is not in a position to enforce the PMOs' participation.

Current guidelines do not require staff to follow certain rules, steps or activities of a process with defined results within a certain timeframe.

258. In general, standard practices require staff to follow certain rules, steps or activities of a process with defined results within a certain timeframe. Current guidelines do not provide such a process. In the view of PMOs, the process of identifying and coordinating activities with the UNCTs is rather a ‘fire brigade mission’ than a standard practice. They have to invent their own approach to working in collaboration with the UNCTs.

Furthermore, according to the CPF Operational Guidelines, the NLO, with the assistance of the PMO, identifies and coordinates activities with UNDP. Contrary to those guidelines, at the country level the PMO has to identify and coordinate activities in the UNCT decision-making bodies. Moreover, the RC and the UNCT coordinate the UN operational activities.

Staff need clear guidance for participating in the UNDAF process.

259. In my view the poor guidance given in the current guidelines risks wasting resources. The Secretariat should consider integrating clear instructions in a relevant guideline to assure quality and to increase productivity in collaboration work.

Representing the Agency in the UNCTs should be an established PMO task.

260. The Agency’s Briefing Notes do not oblige the PMOs to undertake steps addressing the UNDAF cooperation work. Motivation and enthusiasm determine to what extent the PMO embraces the idea of increased collaboration in the UNDAF process. Representing the Agency in the UNCTs should be recognized as a fixed component of the PMO’s tasks. The Secretariat should consider underlining UNDAF collaboration work in the PMOs’ job descriptions.

Due to limited resources the Agency cannot be fully involved in the UNDAF process. The Agency should provide the necessary resources.

261. The Agency has intensified collaboration in the UNDAF processes in recent years. These additional collaboration efforts require funds and staff. Due to limited resources, the Agency cannot be fully involved in the UNDAF process. Improving this situation would require strengthening in-house resources. I consider it necessary for the Secretariat to make available the required resources.

The PCMF should reflect the collaboration work completely to improve reporting and monitoring.

262. The Programme Cycle Management Framework (PCMF) facilitates developing and managing TC projects from concept submission through project design, approval, implementation, monitoring and assessment. My team could ascertain that the PCMF showed that in only eight out of 24 countries and, in total, only 15 national TC projects, was there an explicit, but unspecific, reference to a UNDAF. For the purpose of reporting and monitoring the Agency’s UNDAF participation, information on linkages between TC projects and UNDAFs is essential. The PCMF should therefore fully reflect the degree of collaboration work carried out.

Structured data about UNDAFs should be integrating into PCMF

263. In order to improve reporting and monitoring the Secretariat should consider integrating structured data into the PCMF concerning UNDAFs, their outcomes and their linkages to TC projects.

C.6.2. UNDAF processes in three African countries in 2011

My team carried out a field mission to three African countries.

264. In October 2011 my team carried out a field mission to three African countries for on-site examination of the Agency’s participation in the UNDAF process and the ‘Delivering as One’ approach and the implementation of 13 national TC projects.

<p>Agency staff has to represent the Agency in UNCT decision-making bodies. NLOs are welcome in sub-working groups.</p>	<p>265. I had already recommended in my report last year that the PMO should represent the Agency in UNDAF processes. In November 2011 the Agency stated it would be important that the NLO accompanies the Agency staff for the purpose of establishing a direct link between the NLO and the RC or UNDAF focal point. In the countries visited, the NLOs are not represented in UNCT decision-making bodies. Agency staff must represent the Agency in appropriate bodies. NLOs are asked to contact the UNCT on location in order to participate in sub-working groups regarding aspects that most directly concern the TCP.</p>
<p>NLOs knowledge of UN priorities and scope of operations should be improved.</p>	<p>266. I consider it to be of the utmost importance that the Secretariat should clarify possibilities on how to improve the NLOs knowledge concerning the RCs, the UNCTs and UN organizations' priorities and scope of operations.</p>
<p>The UNCTs' state of information on the Agency's capabilities erodes quickly.</p>	<p>267. Despite the Agency's efforts, the RCs and UNCTs in the countries visited seemed to be only marginally informed of the Agencies' capabilities. The Briefing Notes reached their original addressees, but, possibly due to staff changes, the UNCTs were not aware of the information contained therein.</p>
<p>Recommendation</p>	<p>268. I believe that the Secretariat should consider how it can ensure that the UNCTs are fully informed of the Agency's capabilities.</p>
<p>The Agency was in a position to assign several national TC projects to UNDAF outcomes.</p>	<p>269. In February 2011 the Agency had only established mobilization targets for UNDAF outcomes in the countries visited. By December 2011 it was in a position to assign several TC projects to the outcomes. The Agency intends to maintain good communication and contacts with the UNCTs. Linking TC projects to UNDAF outcomes expresses concretely the Agency's willingness to collaborate with other UN organizations. The number of linkages should be used as an indicator for the extent of collaboration.</p>
<p>Recommendation</p>	<p>270. I appreciate that some good progress has been achieved so far in collaboration work and encourage the Secretariat to continue its efforts in this regard.</p>

C.6.3. Implementation of national TC projects in three African countries

<p>The know-how for TC project design and implementation is not yet sufficient.</p>	<p>271. The countries visited in October 2011 do not yet have a long history in TC project design and implementation. Although the Agency has arranged training courses on a regular basis, knowledge of TC project terminology, the Logical Framework Methodology, TC project tools and the procedures for TC projects is not yet sufficient. As the audit results showed, the design, implementation and monitoring of TC projects suffer so far from serious shortcomings. The Secretariat should continue to provide training courses for CPs and NLOs.</p>
<p>CPs found it difficult to use the PCMF for PPRs. They saw a lack of reminders and missed feedback on PPRs.</p>	<p>272. Most CPs did not use the Project Progress Report (PPR) feature in the PCMF. The lines for this feature in the PPR screen were not duly completed. Indicators referring to a feature, characteristic or yardstick applied to measure (indicate) progress over a period of time were not defined. In the case of defined indicators, there was no update available.</p>
<p>Various explanations were given for missing PPRs.</p>	<p>273. The CPs gave various reasons for missing PPRs. In some cases the Agency had not reminded CPs to submit PPRs or the corresponding PCMF feature was too difficult to operate. Other CPs could not retrieve submitted PPRs from the PCMF. Some CPs remarked that the Agency did not give any feedback on PPRs or had not defined Performance Key Indicators (PKIs). They considered a reply by the Agency to be important and highly appreciated for the further implementation of the projects.</p>

<p>NLOs and CPs need a PCMF user manual in addition to the PCMF. They should be involved in identifying user requirements.</p>	<p>274. The PCMF as an IT system provides all stakeholders (Member States and Agency) with online access to their projects and facilitates real-time interaction between project team members. However, many NLOs and CPs were not in a position to assess how to benefit from the programme due to a lack of information. To obtain information from the PCMF online help, a user already needs a certain understanding of the IT system. In order to facilitate the use of PCMF, the PCMF online help section should be compiled in an online document outside the PCMF.</p>
<p>The Secretariat should encourage greater involvement of local user groups in the PCMF process.</p>	<p>275. The PCMF user ratio between Agency staff and users on location, such as NLOs and CPs, is 30% to 70%. Nevertheless, the Agency actually receives very little feedback as to the NLOs' and CPs' needs concerning PCMF. As I already recommended in my 2009 and 2010 reports, the Secretariat should encourage greater involvement and representation of such user groups in the PCMF process in a more systematic manner.</p>
<p>The Secretariat has established an arrangement with an expert freight forwarder to resolve communication problems affecting the delivery of equipment.</p>	<p>276. In my reports in prior years, I pointed out that in some cases communication regarding delivery of equipment and customs clearance did not function properly. For administrative reasons, equipment delivered was held in bonded warehouses. Meanwhile the CPs had to pay warehouse charges, which in some cases exceeded the value of the equipment delivered. I recommended that the Secretariat should make delivery of equipment subject to trouble-free and uninterrupted customs clearance in the recipient countries. The Secretariat stated at that time that communication problems concerning delivery of equipment to CPs and customs clearance had meanwhile been resolved with the establishment of an arrangement with an expert freight forwarder.</p>
<p>During the last field mission, we found that NLOs and CPs are still not sufficiently informed about their role.</p>	<p>277. In the course of the last field mission, my team found that in one country visited CPs were still experiencing difficulties in receiving equipment. The Secretariat stated that all projects financed by international agencies have to be registered with the Government before customs waivers can be obtained. This task is not the responsibility of the Agency, but falls to the NLO and CPs. Apparently NLOs and CPs are not always aware of this. I consider it necessary that the Secretariat should give clear guidance to the NLO and CPs regarding their role in the current procurement procedure.</p>

C.6.4. Recurrent and other findings

<p>Since 2005 there has been no improvement in reporting on project progress.</p>	<p>278. In my 2005 report, I already criticized failures in the preparation of PPRs. The Field Missions in 2008 and 2009 supported this finding, even though in 2006 the Secretariat had stated that the PCMF would increase the ability to monitor outcomes effectively. Finally, in January 2010, the Secretariat stated that in August 2009 a new PCMF application had been introduced, facilitating the submission of PPRs by CPs to meet their obligations. However, in the course of the last field mission my team still found similar shortcomings in three countries visited. In November 2011 the Secretariat stated that the PPR process and tools would be revamped. It would be planned to release a pilot exercise by the 4th quarter of 2011 to be used in the current cycle. Enforcement strategies would be considered.</p>
<p>The Secretariat should ensure that PPRs are consistently provided and PKIs defined. In cases of non-compliance the Secretariat should consider not only sanctions but also incentives.</p>	<p>279. I consider it essential that the Secretariat exert its influence to ensure that PPRs are consistently provided and that the meaning of PKIs be defined so that the achievement of TC project objectives can be properly reviewed. If a country fails to provide the PPR, there should be reminders. If the quality of a PPR is poor, the Secretariat should reject it and request it to be resubmitted in the quality expected. The Secretariat should not only consider sanctions, but also introduce incentives for the CPs who had fulfilled all requirements.</p>

<p>The NLO in a new Member States compiled a guidance document to facilitate the CPs' work.</p>	<p>280. The CPs in a relatively new African Member States in the IAEA family have so far not been able to gain much experience in the execution of TC projects. To facilitate their work, the NLO compiled a guidance document. It contains important information on procedures and terms concerning TC projects.</p>
<p>Recommendation</p>	<p>281. I consider that effort to be very useful for the efficiency and effectiveness of TC projects. Such a practice can promote smooth TC project design and implementation. The Secretariat should encourage NLOs in new Member States to follow that excellent example.</p>
<p>The TC Manual, outdated since 2007, was revised and finally went online end of 2011.</p>	<p>282. In previous years' reports I pointed out that the former TC Manual for regular TC projects (so-called 'White pages') had been outdated since 2007. For staff and stakeholders in TC projects it had been unclear which rules to apply. In November 2011 the new 'Technical Cooperation Operations Manual' went online. In combination with the guidelines posted in the PCMF, staff now have available valid reference documents for their work. I highly appreciate the steps taken by the Secretariat to effect this improvement. A valid TC Operations Manual is of paramount importance.</p>
<p>Project management know-how will be communicated by means of an interregional TC project.</p>	<p>283. In previous years' reports I pointed out that a sound understanding of project management standards will enable project staff to give competent advice on projects. The Secretariat stated in 2010 that the process of collecting, consolidating and disseminating best practices in project management would start in 2012 by means of an interregional TC project.</p>
<p>Recommendation</p>	<p>284. I strongly recommend again that the Secretariat ensure that adequate project management knowledge is available for all TC projects.</p>
<p>NPCs do not know how to benefit from RDCs. This issue will be discussed in a TC Senior Management meeting.</p>	<p>285. Regional agreements aim at regional self-sufficiency and maximum utilization of available infrastructure and expertise. One mechanism to this end are the Regional Designated Centres (RDCs). However, as my 2010 and previous years' reports set out, National Project Coordinators (NPCs) and CPs were not fully aware how they could benefit from RDCs. At that time I recommended that the mechanism of RDCs needs to be introduced at the NPC level in all its aspects. In November 2011 the Secretariat stated this issue would involve a more systemic approach to regional agreements and that this would be discussed in a TC Senior Management meeting in the near future.</p>
<p>Recommendation</p>	<p>286. I consider it necessary that the Secretariat proceed with its efforts to increase the use of RDCs.</p>
<p>A Quadripartite Meeting agreed upon an action plan for strengthening cooperation between parties to the regional agreements.</p>	<p>287. In previous years' reports I observed that four regional agreements had been established to enhance cooperation in the field of nuclear science and technology. The 'Quadripartite Forum' should be a platform for exchange of information on matters relevant to the regional agreements. I appreciate the action taken and believe the Secretariat is on the right track.</p>
<p>Recommendation</p>	<p>288. I recommended that the Secretariat increase its efforts to intensify cooperation between the parties to these regional agreements, so that all participants can benefit. In January 2011 the Secretariat stated that in a Quadripartite Meeting in September 2010 an action plan was agreed upon.</p>

C.7. Information Technology

Some of the IT issues examined in the last eight years were brought to a satisfactory conclusion, some made considerable progress and some have still not been addressed satisfactorily.

I recommend that the implementation of the IRP should be given the highest priority.

289. In recent years my team and I audited various aspects of the Secretariat's IT, particularly IT governance, IT security, IT applications and databases, and also IT projects. Some of the issues examined were brought to a satisfactory conclusion, some made considerable progress and some have still not been addressed satisfactorily. I encourage the secretariat to strengthen IT structures and procedures by implementing the recommendations made in the eight annual audit reports I have issued to date, as well as those contained in my four IT - related management letters.

290. In addition to the detailed findings and recommendations presented in the following paragraphs, I would like to address an aspect which merits the attention of the Secretariat's senior management and the future External Auditor. My team was informed that the IRP is delayed. As a consequence of serious software development problems, SG cannot establish a reliable timeframe for implementing this integrated information system. In view of the importance of IRP to the availability and security of IT-based Safeguards data, resolution of these problems should be given the highest priority.

C.7.1. Disaster Recovery/Business Continuity (DR/BC)

My team reviewed progress concerning the two DR sites.

Schedule of the SG's DR Project.

There was only marginal progress concerning the tertiary site.

Considerable efforts still have to be made to achieve for the SG's 'Secondary site' the functionality of a 'High Availability' site.

291. My team has reviewed the progress of the two Disaster Recovery (DR) sites of the Division of Information Technology (MTIT) (the so-called 'cold site') and SG (the so-called 'tertiary site', which is also a 'cold site') at the IAEA Seibersdorf facility. These two sites represent or will represent vital components of the Secretariat's business continuity strategy and are intended to ensure the availability of the Agency's IT on a continuous basis.

292. In April 2009 I was informed by the Secretariat that the 'overall SG DR project', including the creation of a 'tertiary site', was scheduled to be established by mid-2009. In April 2011 the Secretariat informed me that '*Safeguards will set up its own cold site in SAL, once the new building site is completed, ...*'. Currently encrypted backup tapes of SG's IT Systems are stored in cabinets in the existing laboratory building.

293. In November 2011 my team visited the IAEA Seibersdorf facility and was surprised by the marginal progress made concerning SG's tertiary site. During the visit my team only saw the beginning of digging works on the lot that is designated for the future SG's 'Nuclear Material Laboratory', where SG's tertiary site is to be housed.

The Secretariat responded that '*Safeguards has a long time goal of setting up a disaster recovery site*' and that a formal project '*... has not yet been initiated*'.

294. My team later visited the SG 'Secondary site' in A10 of the VIC. SG plans to create a 'High Availability' site in this location, '*which can duplicate data from the primary data centre ... on a near real time basis*'. My team noted that the systems in the server room, the former SG data centre, were currently essentially configured to produce backups of the operational systems. To achieve the aimed functionality of a 'High Availability' site, extensive efforts concerning system configuration still have to be made.

One reason for the delay in the DR measures seems to be the delay in the ISIS Reengineering Project.

The 'Business Impact Assessment study' of SG provides basic information concerning the current situation with SG's data. A more specific 'Business Impact Assessment' is still lacking.

The current state of IT support for SG, as well as of IT security, is disappointing.

I question whether the current approach which appears to accept IT blackouts of long duration and a paper-based management of confidential data adequately meets user demands.

I doubt if the expectations concerning service maintenance of IT-based SG's information can be met in case of an incident.

I recommend considerably strengthening efforts in three crucial areas of the SG's IT

295. One reason for the low priority and therefore the delay in the DR measures seems to be the delay in the ISIS Reengineering Project. Because there is currently no agreed timeframe for implementing this integrated information system, SG is not giving priority to completing its DR project. They argue that until a migration of the currently scattered data repositories to the new integrated information system takes place '*... a High Availability or DR site will not be of real value ...*' The present main repository of nuclear material data is still the mainframe, which is not within the scope of the DR project because of the planned migration of ISIS to the future integrated system.

296. SG has prepared a 'Business Impact Assessment study' which constitutes a kind of a guide as to how to execute a business impact analysis (BIA). It describes a template which could assist SG in carrying out a BIA, but there is no evidence that a BIA has yet been carried out. The document just provides some basic information concerning the current situation regarding SG's data. It confirms that the variety of Divisional databases on different systems '*greatly complicates and in fact hinders the restoration of ICT (Information and Communication Technology) services in the case of a catastrophic event happening at the IAEA HQ*'. Future expectations are focussed on the '*full implementation of the Integrated Safeguards Environment*', which is another name for the above-mentioned IRP. Regarding the acceptable downtime of IT services, there is only the statement that these timelines have to meet or exceed 'Business Services Return to Operations (RTO)' requirements. Consequently the current 'ICT Recovery Plan' indicates that '*it would most likely be a weeks to months' timeline to restore the ... ICT services to enable the requested Safeguard Services*'. Hence a 'Business Impact Assessment' with an appropriate level of specifications is still lacking.

297. In my opinion the current status of the IRP and the SG's DR project results in a disappointing state of IT support for SG, as well as of IT security. The Secretariat confirmed that backup media are encrypted in an '*uncrackable*' way and that most of the Highly Confidential data also exists in paper form, so that there is no need for further action concerning data confidentiality.

298. I agree up to a point, but on the other hand there are clearly problems concerning data availability. There is no tertiary site, and the secondary site is currently far from able to take over IT operations close to a 'real time basis'. In addition, it is improbable that the secondary site could function at all if a serious disaster (e.g. natural catastrophe, terrorist attack) were to put the data centre in CMI out of operation because of the proximity of the two sites.

I question whether the current approach, which appears to accept IT blackouts of long duration and a paper-based management of confidential data as a standard option, adequately meets user demands and the requirements of up-to-date information management.

299. In its 'Business Impact Assessment study' the Secretariat stated that '*... confidence in Safeguards is critical, so the maintenance of trust and credibility in Safeguard's ability to deliver its Services is paramount*'.

I agree with this statement. Regarding the current situation concerning IT availability and DR infrastructure, I am afraid that these expectations would not be met in the case of an actual catastrophic incident. Nor am I sure that Member States would be satisfied with the possibility of having to do without IT-based SG information 'for weeks to months'.

300. I recommend strengthening efforts in

- issuing a detailed business impact assessment,
- implementing an appropriate Disaster Recovery Infrastructure (DRI) and
- finalizing the ISIS Reengineering Project as soon as possible.

During their visit to the MTIT DR Site in Seibersdorf, my team found some deficiencies.

The Secretariat has already begun to address the deficiencies identified and I welcome their responsiveness.

The Secretariat undertook to improve the storage facility used for back-up tapes.

I had the impression that the Secretariat did not coordinate the DRI projects of SG and MTIT adequately.

The Secretariat has stated that it will focus on one house solutions to the Agency-wide requirements of DRI.

I recommend again applying accepted international standards and conducting a coordinated one house approach regarding business continuity and DRI. First encouraging steps have already been taken.

I recommended providing appropriate space in the building for the SG's tertiary site as well as for the MTIT's DRI site.

301. The latest DRI project of MTIT, the move of its DRI from the United Nations International Computing Centre in Geneva to the Agency's Seibersdorf facilities, was nearly completed. During their visit to the site, my team found some deficiencies, particularly with regard to physical security.

302. Some of the findings were:

- The room used for the DRI had no appropriate access control.
- There were no additional measures to compensate for the physical failings inside the room.
- Fire/smoke/water protections of the site were insufficient.
- The uninterrupted power supply for the DRI was installed in a way that implied a considerable risk of a spontaneous blackout of all connected devices.

The Secretariat concurred with these findings and has already begun to address them and to implement additional protective measures. I welcome their responsiveness and the action taken to address the deficiencies described.

303. Regarding the back-up tape storage rooms of SG and MTIT, my team also found room for improvement. Because of physical deficiencies, the manner in which the back-up tapes were stored posed potential availability risks and also potential risks concerning data integrity. The Secretariat undertook to improve the storage facility used for back-up tapes.

304. Due to the individual characteristics of the SG's and the MTIT's DR approaches, I had the impression that the Secretariat did not coordinate the DRI projects adequately. The Secretariat neither seemed to pursue my former invitation to consider a common 'one house approach' for the development and implementation of a DRI, nor to adopt established international standards concerning IT security and business continuity (such as ISO 27002, ISO 27031 and BS 25999).

305. The Secretariat disagreed with this finding. It stated that there is 'documented communication' and an 'agreement between DIR-MTIT and DIR, Division of Information Management' on this matter. Asking for these documents, my team received, however, only a quotation of two short and very general statements regarding current and future interdepartmental IT cooperation. The Secretariat conceded that '*... there is room for enhancement of the collaboration in this area*' and stated that it would '*... foster collective solutions to the DR requirements.*'

306. In order to achieve IT readiness for business continuity as a fundamental part of an overall business continuity management in the medium term, I repeat my invitation to reconsider the current approaches. I recommend again improving the present structures and procedures by applying accepted international standards and adopting a coordinated 'one house approach'.

This requires that the DRI for SG's IT and also the improvement of MTIT's DRI should be based on up to date business impact assessments. First encouraging steps have already been taken. The Secretariat confirmed that for the 'development of DR/BC capabilities' it will focus on one house solutions, supported by the service of the Central Security Coordinator (CSC).

307. I recommended taking advantage of the early state of the SG's tertiary site in Seibersdorf to adjust the design of the new building site so that there is appropriate space in a secure part of the building for the SG's tertiary site as well as for the MTIT's DRI site. A coordinated development and housing of the DRI sites of the Secretariat would result in a substantial enhancement of IT security, as well as an increase of business continuity potential.

The Secretariat agreed that it will implement a state-of-the-art DR/BC site. I welcome this progress and encourage the Secretariat to pursue this goal.

308. The Secretariat stated that it will use this opportunity to implement a state-of-the-art DR/BC site to best advantage. Significant discussion on this topic, as well as other considerations, such as security, accessibility, laboratory requirements and financial implications, took place. Management is confident that an optimal solution will be achieved in the new building. I very much welcome this and encourage the Secretariat to convert its intentions into practical measures. A well-founded DRI is a crucial means to prevent an unexpected event terminating the Secretariat's IT operations and thereby probably the Secretariat's capability to work.

C.7.2. IAEA Data Centre - Phase III delayed for years

I welcome the implementation of one of my earliest recommendations, the commonly used Data Centre.

309. I very much welcome the Secretariat's reaction to one of my earliest recommendations to give up former server rooms spread on floors around the VIC and to use one new Data Centre in a highly secure area of the building. The commonly used Data Centre houses the IT computer servers and systems of the whole Secretariat, which are operated mainly by the Department of Management (MT) and the Department of Safeguards (SG). It enables the Secretariat to benefit from shared environmental systems. Furthermore, it ensures availability of data on a similar level for all users, but also offers options for different levels of confidentiality.

Implementation of the new Data Centre has not been finalized for five years. A recent power outage underlined the necessity for essential technical improvements.

310. Since 2007 I reported annually on phase III, the last part of building up the new Data Centre on the -1 level of the C-Building (CM1). In 2007 I already encouraged the Secretariat to introduce phase III urgently. This was due to the risks to IT operations as a whole, but especially because of the inadequacy of the fire protection system as an important basic component of a data centre. The project was expected to start in 2008 and to be completed in July 2009, but it was postponed several times. Currently there is still neither an approved timeline for final implementation (roughly targeted for the end of 2013), nor have the necessary agreements with companies been made. The recent power outage on a weekend in February 2012 underlined the necessity for technical measures to improve the environmental systems (Uninterruptible Power Supply and Generator) as soon as possible.

There were some conditions out of Secretariat's exclusive control that contributed to the delay.

311. I am aware of the difficulties of using this location because of necessary agreements with other VBOs in this area. I am also aware of the arrangements between the different divisions of the Secretariat involved and UNIDO's Buildings Management Service (BMS), e.g. my staff was informed of problems relating to BMS's responsibility for tender processes.

Meanwhile estimated costs increased by 60 %.

312. In past years the total estimated costs of this project rose from approximately € 3 million in 2007 to € 4.8 million in the latest estimate in 2011. The main reasons for this were general price increases and newly defined technical requirements. The Department of Safeguards increased the requested air conditioning equipment (at an additional cost of € 273,000) and required additional cabling (€ 146,000). BMS strengthened the floor load capacity for the whole area, though this was not requested by the operating Departments (€ 428,600). The funding on the current level was financed by 2011 savings in the Department of Safeguards.

The role of the project manager was moved from MT to SG.

313. I am aware that, apart from the installation of new environmental systems, the Phase III construction work that has to be done predominantly concerns SG. However, since the Data Centre is commonly used, and especially because MT has the central role for the Secretariat's IT operations, it is somewhat surprising that the project manager role was removed from MTIT and taken over by SG in November 2010.

Recommendation

314. I strongly recommend implementing Phase III of the Data Centre project without any further delay, applying the often-cited 'one house approach'. This is necessary in order to prevent major problems arising if a power failure occurs during working hours or if a failure occurs because the environmental conditions are inadequate. It is also necessary to avoid further increasing expenses.

C.7.3. Significant savings possible in IT procurement

The standardization of computer hardware to fewer models was a step forward.

315. The Secretariat standardized the procurement of desktop computers, displays and laptop computers to fewer models. In the past, most procurement was customized using listed options. Now there are two models for each category of equipment. I am aware that longer warranty, on-site warranty support and initial software configuration are of significant value to the Agency and for these reasons procurement may be at a higher price level compared to the 'street prices' of brand suppliers.

The Agency uses BSAs for the procurement of desktop computers.

316. In 2009 my staff checked the procurement of desktop computers under a Basic Supply Agreement (BSA) with one supplier for the first time. The then BSA included rules for the alteration of prices and configurations. The configurations and the prices offered in the BSA, however, have basically remained unchanged between 2006 and 2009. All six of the BSA revisions made contained only marginal changes and did not reflect the reduction of market prices by about 50 % during this period. In my annual report for the year ended 31 December 2009 I presented these findings.

The Secretariat announced frequent price verification in a BSA with a new vendor.

317. The Secretariat agreed and announced that the pricing of IT items on the BSA will be reviewed in future twice annually '*so that the benefit of falling prices can be captured within the context of a BSA*'. A new BSA was made with another company which also includes rules for the alteration of prices and configurations.

The Secretariat has not yet taken action on prices.

318. We reviewed the pricing regularly over the last 15 months using the published configuration sheets on the MTIT intranet site. There was no alteration in price, although market prices had declined from month to month. All BSA revisions that have been made reflect only the fact that technically outdated desktop processor models were no longer available and therefore the configuration had to be changed.

Instead of price changes the Secretariat received higher capacity computers.

319. The Secretariat replied that the price changes had created '*benefits for the Agency, by buying higher capacity computers for the same price. This is a necessary step, to ensure that the Agency is purchasing computers that will have an appropriately long useful life*'. However, the Secretariat announced that it would review the pricing of displays in March.

Desktop computers are configured for the software in use and do not need higher processing power.

320. This explanation is not convincing, because the current BSA was signed and the configurations defined based on the migration to Windows7/Office10. This is the software currently used and it will be used for the foreseeable future. Large IT systems, such as AIPS, operate server-based. This means that the desktop computers do not need extended processing power. Furthermore, the replacement of a technically outdated desktop processor (CPU) alone did not result in higher performance without adding memory and including faster hardware.

Similar situation in procurement of displays and laptop computers.

321. My staff found that a similar situation prevailed in the procurement of computer displays and laptop computers. Concerning display models and laptop computers, there was only one minor change of price for each of these items.

Significant possible savings have not been realized in the past five years

322. In the last five years nearly all desktop computers, all laptop computers and all displays were replaced at least once. Significant possible savings were not realized over this period. In order to realize potential savings, I strongly reiterate my previous recommendation and urge the Secretariat to take advantage of reduced prices in future. I trust that the announced negotiations on display prices and a new BSA will lead to lower prices.

D. FOLLOW-UP ON THE RESULTS OF MY FINDINGS AND RECOMMENDATIONS LAST YEAR AND IN PRIOR YEARS

D.1. Financial Issues

D.1.1. Accrual Budgeting

I had recommended that the Secretariat should also envisage full accrual budgeting in the longer term.

323. I had recommended that, in connection with the implementation of IPSAS, the Secretariat should also envisage full accrual budgeting in the longer term in order to achieve better comparability between budget and financial statements. The ERP system for the Agency should be adapted to cover accrual budgeting.

UN system Agencies have not taken a decision to adopt accrual budgeting.

324. The Secretariat stated that IPSAS does not specifically recommend the adoption of accrual budgeting, but requires that budgetary reports and IPSAS-compliant financial statements be reconciled when the budget and financial statements are prepared on a different basis. Accordingly, UN system Agencies have not taken a decision to adopt accrual budgeting.

In consultation with the Finance and Budget Network the Agency will consider transitioning to accrual budgeting.

325. Due to the fact that budgets are prepared on a different basis (i.e., a modified cash basis) than the financial statements (i.e., full accrual under IPSAS), the Agency's ERP system has been setup to capture both of these (budgetary ledgers vs. IPSAS accounting ledgers). In consultation with the Finance and Budget Network, the Agency will consider transitioning to accrual budgeting, should this prove to be cost effective.

I appreciate the Secretariat's willingness to consider accrual budgeting.

326. I appreciate the Secretariat's willingness to consider accrual budgeting in the longer view. I continue to recommend that thought be given to accrual budgeting and the necessary changes in AIPS to prepare for accrual budgeting. This would include taking investment plans into consideration.

D.1.2. Outstanding assessed contributions from the former Yugoslavia

Assessed contributions in the amount of € 2.3 million owed by the former Socialist Federal Republic of Yugoslavia are still outstanding.

327. I had repeatedly reported that the IAEA's financial statements showed assessed contributions in the amount of € 2.3 million owed by the former Socialist Federal Republic of Yugoslavia (SFRY) for the years 1990 to 2001. The UN took the decision that the unpaid assessed contributions of the former Yugoslavia up to 27 April 1992 should be apportioned among the successor States of the former Yugoslavia. This decision still needs to be implemented in the IAEA.

Informal meetings with the successor states of the former SFRY were held in 2011.

The Secretariat will communicate its approach to the successor states.

An allowance will remain recorded against SFRY arrears until this issue is resolved.

328. After this issue had been addressed with the successor states of the former SFRY in 2009 and 2010, the Secretariat actively pursued the matter in 2011. On 21 September 2011, during the 55th General Conference, an informal meeting was held with all five successor states to discuss the outstanding arrears. This was the first meeting ever organized by the Agency for all successor states jointly. Successor states were asked to consult with their capitals on their intentions regarding these arrears. The Secretariat requested them to respond to the Secretariat before the end of 2011. Another meeting was held in November 2011 at which it transpired that any additional steps regarding the preparation of a joint answer by successor states would require the approval of the succession committee. However, the successor states confirmed that the succession committee has not met for almost two years, and it was not likely to meet in the near future.

329. The Secretariat has developed an approach which will be communicated to the successor states during 2012. Further steps will be taken on the basis of these communications.

330. An allowance has already been made in the financial statements for 2011 against the SFRY arrears (as well as against all other old outstanding arrears) in accordance with IPSAS policy and internal procedures (paras. 92-93, refer). These arrears will continue to be included in the allowance until this issue is resolved.

D.2. Administrative Matters

D.2.1. Risk Management

The Secretariat should complete the Agency's overall risk management system as soon as possible.

OIOS Management Services completed a review of the current Risk Register. The Strategy and Policy-planning function in the DGOP will now aim to finalize a risk management system.

Internal controls and proper delegation of authority are an integral part of risk management. A Statement of Internal Controls should support the implementation.

331. In my previous reports I had recommended that the Secretariat should complete the Agency's overall risk assessment and fully implement the risk management system as soon as possible. I believe that the IAEA should mitigate its operational, financial and reputational risks as far as possible.

332. The Secretariat reported that in 2011 OIOS Management Services completed a review of the current Risk Register and recommended further enhancement and rollout of Risk Management in the Agency. With the establishment of the DG Office for Policy (DGOP), overall responsibility for Risk Management in the Agency has been clarified. It will be overseen by the Strategy and Policy-planning function in the DGOP. The responsible senior strategy officer has taken up his duties earlier this year. An Action Plan to further rollout and improve Risk Management implementation was finalized by a Group consisting of Programme Coordinators from all Departments and DGOP. This Group is working to finalize the establishment of an Agency-wide risk management system.

333. I appreciate the Secretariat's efforts to improve its overall risk management. I especially appreciate that key staff from all departments will be involved in the process. However, I would like to point out that in my view the process has yet to be completed. Additionally, risk assessment is the first step towards a comprehensive assessment of internal controls necessary to manage the risks and a proper delegation of authority. I refer to paras. 125-133 and recommend the introduction of a Statement of Internal Control.

D.2.2. Travel

I support OIOS' various proposals for saving travel expenses.

A revision to the travel rules and procedures has been approved by the DG.

It has to be seen whether these revisions will produce the expected significant savings.

334. I encouraged the Secretariat to consider reducing the lump sum entitlement for home leave travel from 75 % to 65 %. Furthermore, I believe the acceptable travel time could be slightly extended in order to make significant savings in the costs of duty travel. Planning, initiation and authorization of travel need to be accelerated so that the Agency can benefit from the cheaper airfares usually available for earlier booking. The quarterly travel plans should be produced more accurately and not leave out a significant percentage of duty travel. Duty travel should also be planned at the earliest possible date. In a large number of all the journeys undertaken for IAEA, a private component was included. In 5 % of all cases, the number of private days was higher than that of the official days. It should be carefully considered whether in these cases the duty travel is really justified.

335. As an initial step the DG introduced a maximum lump sum allowable of € 4,000, subject to further review. To improve performance and ensure optimization of cost and programmatic performance, a revision to the travel rules and procedures has been approved by the DG allowing for longer flight times.

336. In the revision of the Travel Rules and Procedures, the timeline for the submission and release of the Quarterly Travel Plan has been advanced and the authorization process has been streamlined. Allotment Managers have the responsibility for approving travel and ensuring that in all cases the trip is justified, irrespective of whether there is a private travel component or not. It has to be seen whether these revisions will produce the expected significant savings.

D.2.3. Office of Procurement Services

I made a number of recommendations concerning the work of MTPS.

Low value procurement has been reduced in 2011 by 57.8%.

Total value of purchased goods and services 2008 to 2011.

337. Since 2008 I have noticed changes in both the structure of the Office of Procurement Services (MTPS) and the workflow of the procurement functions. In 2009 I sent a management letter to the Secretariat containing a number of recommendations concerning the work of the MTPS.

338. My recommendation to reduce low value procurement has been fully implemented. Compared to 2010 the number of orders handled in MTPS has been reduced in 2011 by 57.8 %.

339. The total value of purchased goods and services since 2008 developed as shown in the table below. 2011 figures do not include low value procurement orders (€ 3,001,430 / 3,900 orders) which had been handled by the respective departments.

Year	Value of Purchase Orders	Number of Purchase Orders	Number of Staff (Professional and General Service)
2008	€ 70,114,705	7,007	36
2009	€ 97,047,898	7,208	34
2010	€ 111,966,055	6,617	33
2011	€ 80,654,240	2,854	41

Procurement planning has not yet had a significant influence on the number of purchase orders.

340. I recommended putting more work into procurement planning. In the meantime an agency-wide procurement plan was implemented. This has not yet had a significant influence on the overall number of orders, which constantly stayed on the level of the former years. Contrary to my expectations, the number of procurement staff in 2010 increased to 41 in 2011. Since then staff have been reduced to 36. The Secretariat justified the increase of staff in 2011 with higher workload in connection with the implementation of AIPS.

I recommend taking advantage of any kind of synergies and economies possible following the completion of restructuring and the implementation of AIPS.

341. In my previous reports I appreciated the measures taken by the Secretariat and strongly supported implementing them as soon as possible. I recommend that the Secretariat take advantage of any kind of synergies and economies resulting from the merger of the former two separate procurement offices. Following the MTPS restructuring and the implementation of AIPS, the number of staff has again been reduced. Once staff are familiar with the new procedures and the requirements of AIPS, I expect further synergies.

D.2.4. Information Technology

Responsibilities for information security

342. I suggested handling information security issues in an unambiguous and consistent manner and encouraged the Secretariat to continue to clarify roles and responsibilities.

The DDG-MT has clarified the roles and responsibilities.

343. The DDG-MT has clarified the roles and responsibilities. The CSC has been assigned the role of Agency Information Security Officer (AISO). The DIR of the Division of Conference and Document Services has been designated as Agency Information Classification Officer (AICO). The CSC, AISO and AICO report to the DDG-MT who has overall responsibility for information security. The job description of the Safeguards Security Coordinator includes the need to cooperate and coordinate with the CSC.

The Secretariat did not adopt a one-house-approach and maintains a security function in both MT and SG.

344. I appreciate the measures introduced by the DDG-MT. They mainly met our expectations for improved IT security. However, I am disappointed that it was not possible to realize the one-house-approach. The Secretariat maintains a central security function and additionally a similar function for the safeguards department.

D.3. Other Issues

D.3.1. Provision of Radioactive Sources to Member States

I had reported that radioactive sources were delivered to countries that do not meet the basic requirements set by the Agency itself for handling this material.

345. In 2010 I reported that radioactive sources were delivered to Member States that do not meet the basic requirements set by the Agency itself for handling this dangerous material. I urged the Secretariat to take immediate action to strengthen the process of reviewing new projects and to ensure that safety and security will be re-established in the countries concerned. I further recommended ensuring that this avoidable mistake cannot be repeated by improving coordination within the Agency and introducing stricter administrative procedures.

The Secretariat stated it would verify whether the situation in the countries concerned has improved.

346. The Secretariat responded that these recommendations were implemented by significantly strengthening the process for reviewing new TC projects by the Department of Nuclear Safety and Security. The Secretariat would verify whether the infrastructure in some of the countries that have received radioactive sources has improved since their delivery. They would also verify whether the sources provided were short-lived and, therefore, no longer present a risk.

If not, expert assistance would be provided. Repatriation of sources would be considered as a last resort.

347. If the verification did not lead to satisfactory conclusions, expert missions would be sent to assist these countries in establishing the required safety and security infrastructure, and/or identifying alternative measures, such as storing the sources in a safe and secure storage facility. As a last resort, repatriation of the sources will be considered in consultation with the Member State concerned.

The measures announced need to be verified in a follow-up audit mission to be carried out by OIOS or by my successor.

348. I appreciate the measures taken by the Secretariat and recommend that the improved procedures be followed strictly. It is expected that these will be effective and that radioactive sources will no longer be delivered to Member States that lack any regulatory framework to deal with the substances. However, this expectation needs to be verified in a follow-up audit mission to be carried out by OIOS or by my successor.

D.3.2. Nuclear Security Risk Management

In previous reports I had strongly recommended improving the physical protection of RPMs against damage.

349. In my reports for 2007, 2009 and again in 2010, I strongly recommended that risk assessment concerning the physical protection of RPMs against damage should be an essential part of a site description. My concern was underlined by two accidents that occurred in 2009 and 2010 in two different countries involving considerable damage of RPMs.

It remains to be seen whether the new technical description can prevent such damage.

350. I appreciate that in the upcoming technical description, e.g. Nuclear Security Series Nr.1 (NSS1), the requirement for physical protection of RPMs will be included. It remains to be seen whether damage to RPMs can be avoided in future.

D.3.3. Verification Visits by the EC

The Secretariat as well as the Member States should examine closely any future verification exercise that may be initiated by the EC.

351. I urged the Secretariat as well as the Member States to examine closely any future verification exercise that may be initiated by the EC. Unless the EC have already examined all existing internal or external audit reports and all other information received by the donor, they should not be allowed to undertake another verification process.

EC should study existing information before carrying out another verification visit.

352. The Secretariat agreed with my recommendation and will implement it in respect of any future verification exercises undertaken by the EC. In 2011, no verification exercise by the EC in the IAEA took place, but in my view the requirement of verifying existing information before carrying out another visit should be kept in mind.

E. OTHER MATTERS

E.1. Cases of Fraud and Presumptive Fraud

OIOS found no evidence of fraud in the Agency.

353. OIOS reported to me that although weak internal controls continue to be identified, they did not find evidence of any clear-cut fraud. Three cases of presumptive fraud against the Agency were reported to OIOS in 2011. Two of these cases are procurement-related and are still under investigation; the third case has been closed as unsubstantiated, and was judged to be a minor oversight.

E.2. Losses, Write-offs and ex gratia Payments

E.2.1. Write-offs and Losses

Receivables written off	<p>354. Receivables amounting to € 35,958.23 were written-off in 2011. They comprise the following:</p> <ul style="list-style-type: none">• Agency sales receivables - Laboratory invoices € 9,768.44• Insurance cases € 8,419.06• UNDP - TCF Projects € 8,154.98• Value Added Tax € 7,004.03• Agency sales receivables ~ Publication invoices € 1,823.21• Travel related items € 788.51
Safeguards items and other equipment reported as lost	<p>355. <i>Safeguards Equipment:</i> A total of ten safeguard capitalized items were reported as lost during 2011 with an original value of € 20,503.47 and a book value of € 1,309.94. In addition, three items purchased for a total original value of € 3 976.51 were reported as lost.</p> <p><i>Other Equipment:</i> There are also four other capitalized items that were reported as being lost during 2011 with a total original value of € 4,627.00 and a book value of € 1,544.70. In addition, one item purchased for an original value of € 2,299.00 was also reported as lost.</p>

E.2.2. Ex-Gratia Payments

There were no ex-gratia payments.	356. No ex-gratia payments were made during 2011.
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F. ACKNOWLEDGEMENT

357. I wish to record my appreciation for the cooperation and assistance extended by the Director General, management and staff of the IAEA. I am very grateful for their assistance during the whole external audit process.

(signed)

Prof. Dr. Dieter Engels

President of the Federal Court of Auditors
Germany
External Auditor

G. Acronyms

AICO	Agency Information Classification Officer
AISO	Agency Information Security Officer
AIPS	Agency-wide Information System for Programme Support
AM	Administrative Manual
ASHI	After-Service Health Insurance
BC	Business Continuity
BIA	Business Impact Analysis
BMS	Buildings Management Service
BSA	Basic Supply Agreement
CP	Counterpart
CPF	Country Programme Framework
CSC	Central Security Coordinator
DC	Designated Centre
DDG-MT	Deputy Director General for Management
DG	Director General
DGOP	DG Office for Policy
DIR	Director
DR	Disaster Recovery
DRI	Disaster Recovery Infrastructure
EB	Extrabudgetary
EC	European Commission
ERM	Enterprise Risk Management
ERP system	Enterprise Resource Planning System
FT	Fixed-term
FTA	Fixed-term temporary assistance
HQ	IAEA Headquarters
HR	Human Resources
IAEA	International Atomic Energy Agency
ICT	Information and Communication Technology
IEC	Incident and Emergency Centre
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IRP	IAEA's Safeguards Information System Replacement Project
ISA	International Standards on Auditing
ISIS	IAEA's Safeguards Information System
ISO	International Organization for Standardization
ISSAI	International Standards for Supreme Audit Institutions
IT	Information Technology
JAC	Joint Advisory Committee
JD	Job Description
JIU	Joint Inspection Unit
JSMB	Joint Staff Management Bodies
LEU Bank	Low Enriched Uranium Bank
LT	Long-term
LWR	Light Water Reactor
MT	Department of Management

MTBF	Department of Management, Division of Budget and Finance
MTHR	Department of Management, Division of Human Resources
MTIT	Department of Management, Division of Information Technology
MTPS	Office of Procurement Services
NLO	National Liaison Officer
NPC	National Project Coordinator
NSS	Department of Nuclear Safety and Security
OIOS	Office of Internal Oversight Services
OLA	Office of Legal Affairs
para.	Paragraph
PCMF	Programme Cycle Management Framework
PDI	Person-Days of Inspection
PKI	Performance Key Indicators
PMO	Programme Management Officers
RC	Resident Coordinator
PPR	Project Progress Report
P-staff	Professional staff
RDC	Regional Designated Centres
RP	Staff Rotation Policy
RPM	Radiation Portal Monitor
SAL	Safeguards Analytical Laboratory
SFRY	Socialist Federal Republic of Yugoslavia
SIC	Statement on Internal Control
SSA	Special Service Agreements
SG	Department of Safeguards
ST	Short-term
TA	Temporary Assistance
TC	Technical Cooperation
TCF	Technical Cooperation Fund
TCP	Technical Cooperation Programme
TCSPS	Technical Cooperation Strategy and Partnership Section
TRO	Toronto Regional Office
UN	United Nations
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNJSPF	UN Joint Staff Pension Fund
UNSAS	United Nations System Accounting Standards
US	United States (of America)
US T-Bills	Triple-A short-term US government debts
VBO	Vienna-based Organization
VIC	Vienna International Centre
VN	Vacancy Notice
WFP	World Food Programme

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