



Industrial Development Board

Forty-eighth session

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Item 15 of the provisional agenda

UNIDO Independent Audit Advisory Committee

Report of the Audit Advisory Committee

Report by the Chair

This document is issued pursuant to decision IDB.44/Dec.4 on the establishment of an Independent Audit Advisory Committee (AAC) and in line with the terms of reference adopted with the same decision. The present report provides information on the AAC's activities and advice.

I. Introduction

1. Since the inception of its activities in January 2018, the AAC has met four times at UNIDO's Headquarters and held multiple virtual meetings. Its fifth meeting, scheduled for June 2020 in Vienna, was held virtually due to COVID-19 travel restrictions. The AAC work continues to focus on the key mandate defined in its current Terms of Reference (TOR).
2. Subsequent to its last report to the Board, UNIDO has made significant progress in many of the areas subject to review by and advice from the AAC. There are also areas that have suffered delays and/or require renewed attention.
3. This document does not comprise a detailed compendium of AAC activities and advice; it rather seeks to highlight, (a) the key achievements in internal oversight made by UNIDO with the AAC's support since last year, and (b) the key areas of residual risk in oversight which the AAC believes the Board should be aware of and consider in its deliberations.

II. Progress in internal oversight at UNIDO over the last year

Internal Audit

4. The Internal Audit function, within the Office of Evaluation and Internal Oversight (EIO), has further matured its approach to audit. Reports are streamlined

For reasons of economy, this document has not been printed. Delegates are kindly requested to bring their copies of documents to meetings



and focus on high priority risk areas. This is reflected also in the management action plans, which are prioritised to align with risk.

5. The audit and evaluation functions have continued to actively collaborate and are considering joint engagements.

External Audit

6. The AAC is pleased with the unqualified opinion by the External Auditors (PBC.36/3).

7. The AAC encourages management to accelerate the implementation of outstanding recommendations and action plans from past external audit reports.

8. The AAC is actively engaging with the new External Auditor, the Accounts Chamber of the Russian Federation.

Coordinating management action plans

9. The Managing Director of the Directorate of Corporate Management and Operations, working with EIO, is taking strong steps to synthesize and follow up on management action plans and recommendations from external and internal audits, as well as Joint Inspection Unit reviews. This will assist UNIDO in timelier, prioritized implementation of action plans.

Executive management structure

10. The Executive Board has been strengthened through senior staff appointments, promotions, and reassignments that will enable more comprehensive management oversight and outcomes-based risk management. It demonstrates equitable geographical representation and can help to establish an accountability framework for operations.

Enterprise risk management (ERM)

11. The elevation of the ERM function into the Office of the Director General and Executive Board sets a compelling “Tone at the top”. This further strengthens risk management at UNIDO and creates the potential for an explicit link between results-based management and risk management.

Response to COVID-19

12. UNIDO put in place an exemplary response to the pandemic. It was based on insightful, timely risk analysis, included a proactive communications plan, and was sensitive to employee needs.

13. Business continuity planning related to COVID-19 incorporated learnings from the 2019 internal audit which helped the transition into working remotely.

14. EIO proactively developed a COVID-19-related risk and assurance map using the Three Lines Model¹. This can be mainstreamed beyond COVID-19-related risk and will be valuable to the ERM function.

15. EIO demonstrated management agility by creating a flexible workplan attuned to the changed risk profile created by the pandemic.

¹ The Three Lines Model developed by the Institute of Internal Auditors outlines the roles of various leaders within an organization in achieving organizational objectives. It includes oversight by a board or governing body; management/operational leadership, including risk and compliance (first- and second-line roles); independent assurance through internal audit and evaluation (third line), and the role of external assurance providers. The model applies to all organizations, regardless of size or complexity.

III. Challenges in internal oversight at UNIDO requiring further attention

Enterprise Risk Management

16. While the “Tone at the top” has been strengthened, ERM is still far from embedded at UNIDO. The 2019 workplan was only partially completed, many of the ERM-related documents remain in draft. The AAC is concerned that current staffing and resourcing of Operations Coordination and Risk Management is not yet sufficiently resourced to fulfil its mandate effectively.

Gender balance

17. The AAC is concerned about the gender balance on UNIDO’s Executive Board, which currently includes only one woman among seven members.

18. This is a problem also on the AAC, which has only one woman among five members. The pre-existent roster for replacement of AAC members who rotate off includes no female candidates. The AAC encourages the Board to address this in the next round of call for nominations to the AAC, scheduled for 2022.

Resources for audit and evaluation functions

19. The AAC reiterates the concerns it has raised previously, which were also noted by the External Auditors, that the budget devoted to evaluation and internal oversight does not allow EIO to cover priority high-risk areas at UNIDO from an audit and evaluation perspective. Resource constraints mean that the assurance EIO can provide to the Board is limited.

20. There is a need for a transparent, sustainable and predictable budget for the third line of independent assurance². The AAC encourages UNIDO to consider including oversight (internal audit, evaluation, investigation, AAC) at major programme level in the next programme and budgets.

Fraud risk management

21. The AAC strongly encourages UNIDO to strengthen fraud and corruption awareness and prevention, and adopt a clear definition of corruption. UNIDO should actively encourage staff and others to report possible malfeasance, and establish a single focal point for intake and screening of such reports.

Technology management and digitalization

22. Digitalization opportunities and risk management are critical for UNIDO’s mission. The AAC encourages UNIDO to pay greater attention to the adoption of digitalization beyond back office and related corporate processes, and to ensure that it is linked closely to results-based budgeting to underscore the link between the outcomes that the Organization is planning for and the technology required to ensure that it happens.

IV. Action required of the Board

23. The Board may wish to take note of the information contained in the present document and provide guidance on (a) actions to improve the gender balance in the recruitment of future members of the AAC, and (b) budgetary considerations that would allow EIO functions to provide assurance over the high-risk and strategic areas identified in UNIDO operations.

² Please see footnote 1.