

**Statement by Mr. Elmar Vinh-Thomas,
Chair of the Audit Advisory Committee
at the forty-eighth session of the Industrial Development Board (agenda item 15)
24 November 2020**

Thank you [Mr. President],

Excellencies,

Mr. Director General,

Distinguished delegates,

Thank you for providing the Audit Advisory Committee (AAC) with this opportunity to report its activities and recommendations to the members of the Industrial Development Board.

The AAC's primary mandate is to advise on UNIDO's internal control and risk management systems that contribute to the achievement of UNIDO's organizational goals. The AAC provides independent advice to the Board on UNIDO's internal audit function, risk management practices, and management's action plans to address issues raised by the External Auditor, internal audit and other reviews.

In our work, the AAC actively engages Member States, the Director General, the Executive Board and other senior management members, as well as the internal audit function and the External Auditor. At UNIDO, we are one of the youngest such bodies in the UN family, having been established only three years ago. And we are very pleased to see how seriously our recommendations have been taken by the Director General and his team: for example, the AAC's recommendations to appoint a full-time focal point for risk, and a high-level focal point for following up on the implementation of audit recommendations. Feedback we have received from the Member States echoes that sentiment: Eighty-four percent of respondents to our stakeholder survey strongly agreed that AAC engagement allowed them to understand risk better.

In this session, we would like to share with you the key achievements in oversight and risk management made by UNIDO – with the AAC's advice and support – since the last time we reported to you, and also reflect on the key areas of residual risk in oversight that we believe the Board should be aware of and consider in its deliberations and governance.

In our assessment, 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. I will present them in turn.

We would like to start by talking about UNIDO's response to the COVID-19 pandemic. And while I am speaking as the Chair of the AAC, I am also speaking as a public health doctor, which is how I started my professional career. From that combined perspective, I believe that:

- Earlier this year, UNIDO put in place an exemplary response to the pandemic that was based on insightful and timely risk analysis appropriate to the public health situation. We are seeing the same thoughtful response now during the current difficult resurgence of the virus in Vienna. We take note of UNIDO working closely with its Member States in responding to the crisis.

- The Office of Evaluation and Internal Oversight completed an internal audit of business continuity planning in 2019. Learnings from this audit were incorporated into the response to COVID-19, which helped UNIDO's transition to working remotely.
- The Office of Evaluation and Internal Oversight proactively developed a COVID-related risk and assurance map, which has the potential of mainstreaming beyond COVID-related risk and will be valuable to the Enterprise Risk Management function in general and not only in epidemics.
- Lastly, on COVID, the Office of Evaluation and Internal Oversight demonstrated agility by creating a flexible work plan attuned to the changed risk profile and management needs created by the pandemic.

Second, Internal Audit: The Internal Audit function, within the Office of Evaluation and Internal Oversight, has further matured its approach to audit, focusing intentionally on high-priority risk areas, and prioritizing management action plans to align with risk. Audit and evaluation are actively collaborating and have begun to undertake joint engagements, which is good practice.

Third, External Audit: The AAC is pleased with the unqualified opinion by the previous External Auditors and is actively engaging with the new External Auditor, the Accounts Chamber of the Russian Federation. We have had a number of meetings with them to understand their approach, which will be virtual this year. The AAC encourages management to accelerate the implementation of outstanding recommendations and action plans from past external audit reports.

Fourth, the coordination of management action plans at UNIDO: We appreciate the steps that UNIDO has taken to integrating recommendations and management actions from external and internal audits, as well as Joint Inspection Unit reviews. This attention is aiding UNIDO in a timelier implementation of outstanding action items.

Fifth, UNIDO's executive management: The Executive Board has this year been strengthened through appointments that will enable more comprehensive management oversight and outcomes-based risk management.

Last, but certainly not least, enterprise risk management: The enterprise risk management function has been elevated into the Office of the Director General and his Executive Board, which sets an important tone for UNIDO. Risk management priorities for 2021 have been approved and an enterprise risk management policy is under development. These steps create the foundation for an explicit link between results-based management and risk management.

The AAC has also seen clear challenges in internal oversight at UNIDO that require further attention from executive management and oversight by the Board going forward.

First, Enterprise Risk Management: Whilst the Tone at the Top has been strengthened, ERM is still far from embedded at UNIDO. The 2019 work plan was only partially completed and the AAC is concerned that current staffing and resourcing of Operations Coordination and Risk Management is not yet sufficient to be effective in implementing robust and rigorous ERM.

Second, Gender balance: This is an important emphasis in the United Nations system and indeed around the world. The AAC is concerned about the gender balance on UNIDO's Executive Board, which currently includes only one woman among seven members. This is a problem also on the AAC, which has only one woman among five members and there are no female candidates on the pre-existent roster for replacement of AAC members who leave. The AAC encourages the Board to address this in the next round of call for nominations to the AAC.

Third, resources for audit and evaluation are not currently commensurate to the risk profile of the Organization. The AAC reiterates the concerns we have raised previously, also noted by the External Auditors, that the budget devoted to evaluation and internal oversight does not allow the Office of Evaluation and Internal Oversight to cover all priority high-risk areas. These constraints mean that the assurance that the Office of Evaluation and Internal Oversight can provide to the Board is limited and that UNIDO is de facto accepting this level of risk. There is a need for a transparent, sustainable and predictable budget for oversight and evaluation. The AAC is aware of the ongoing efforts at UNIDO to ensure that the next programme and budgets is results-based. This represents an opportunity to reflect adequately the budgets for independent evaluation and internal oversight functions. The AAC encourages UNIDO to consider including oversight at major programme level in the next programme and budgets. The AAC will follow up on this point in the coming months.

Fourth, Fraud risk management: The AAC strongly encourages UNIDO to strengthen fraud and corruption awareness and prevention, and to adopt a clear Organization-wide 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.

Last, technology management and digitalization: Digitalization opportunities in the context of risk management are critical for UNIDO's mission. The AAC encourages UNIDO to pay greater attention to the adoption of digitalization, and to ensure that it is linked closely to results-based budgeting, in order to underscore the link between the outcomes that the Organization is planning for and the technology required to ensure that happens.

In summary, the AAC is pleased with the positive changes seen in risk management and oversight at UNIDO but asks that the Board continue monitoring the pulse of the Organization in the areas we have flagged for further improvement. We recommend that the Board provide UNIDO with guidance on the appropriate actions to improve gender balance, and that you consider budgetary adjustments that would allow the Office of Evaluation and Internal Oversight functions to provide assurance over high-risk and strategic areas that are not acceptable within UNIDO's risk appetite.

Before concluding, I would like to refer to a number of documents that are before you for a decision. We appreciate the opportunity that was given to us by the previous Acting President of the Board, H.E. Ms. Maria Cleofe Natividad, for a meeting with Permanent Missions in preparation for this session. The first document before you is the proposed revision to the terms of reference of the AAC (see document IDB.48/21). The proposed revision is budget-neutral and reflects the lessons learned in the first two years of operation of the committee, the recommendations from the Joint Inspection Unit, and best practices across the UN system. It also responds to the structural changes that have taken place in the Office of Evaluation and Internal Oversight since the AAC's establishment. We hope that the IDB approves the proposal.

The second item relates to your approval of the appointment of the members of the committee for the next term, in accordance with Paragraph 8 of the revised and new terms of reference of the committee. The background and a draft decision for approval were submitted in document IDB.48/22 and CRP.9.

And the third item is the approval of the new Charter of the Office of Evaluation and Internal Oversight (included in document IDB.48/25), which the AAC has reviewed and endorses.

We wish to thank the Board and would like to reiterate our continued strong commitment to UNIDO and its strategic goals. We are always available to answer questions from and provide advice to the Board and look forward to continued service to you as the Independent Oversight Advisory Committee.

Thank you.