

**Statement by Mr. Elmar Vinh-Thomas,  
Chair of the Audit Advisory Committee  
at the forty-ninth session of the Industrial Development Board (agenda item 14)  
14 July 2020**

Thank you [Mr. President],

Excellencies,

Mr. Director General,

Distinguished delegates,

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

The OAC's primary mandate is to review and advise on UNIDO's internal control and risk management systems that contribute to the achievement of UNIDO's organizational goals. The OAC provides independent advice to the Board on UNIDO's internal audit, investigation and evaluation functions, risk management practices, and management's action plans to address issues raised by the External Auditor, internal audit and other reviews like the Joint Inspection Unit of the United Nations System (JIU).

In our work, the OAC actively engages Member States, the Director General, the Executive Board and other senior management members, as well as the internal audit, evaluation and investigation functions and the External Auditor. We held our 7<sup>th</sup> meeting just last week, virtually, and in addition to our report that you have before you, I will refer to highlights from that meeting.

In the four years that the OAC has existed, we have seen the UNIDO Office of Evaluation and Internal Oversight (EIO) mature further and begin to find synergies between their different areas of expertise. UNIDO management also has shown strong evidence of improvements in governance, accountability and risk management. In addition to systematized follow up on audit recommendations and action plans, the Director General has put in place strong risk management practices that exemplify the close linkage between outcomes, risk and opportunities. Further, we are seeing better communication across management areas being facilitated through UNIDO's new Operations Coordination Committee. The "tone from the top" is crucial in managing risk, and the Board, as well as Director General, have set that tone convincingly.

In this session, we would like to share with you our perspective on the key achievements in oversight and risk management made by UNIDO – with the OAC'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. I will present them in turn.

First, UNIDO continues to show a mature and considered approach to the **COVID-19 pandemic**. Solid public health precautions and risk management processes are in place at headquarters. At the level of the EIO, the audit team continues to be nimble, finding an appropriate balance between advisory work and audit engagements that are designed to provide assurance. We are

looking forward to seeing the outcome of the advisory engagement on “Lessons Learned from the Pandemic”, a joint piece of work between audit and evaluation.

Second, **strategic focus**: In addition to displaying flexibility in light of the restrictions on in-person audit work during the pandemic, the Internal Audit and Evaluation functions, within the EIO, have anchored intentionally to the strategic objectives of the organization (e.g., a review underway of behavioral and technical competencies, a strategic evaluations of UNIDO’s gender policy and an analysis of UNIDO’s capacity to contribute to transformational change). The EIO was able to introduce remote approaches in conducting the evaluation of key projects. The OAC was pleased to see the EIO’s participation in joint UN evaluation and other cooperation activities. This has certainly contributed to broader support of enhanced capacity building.

Third, **External Audit**: The OAC is pleased with the unqualified opinion by the Accounts Chamber of the Russian Federation. You will have seen our comments on the report and on UNIDO’s Financial Statements at the PBC. As we did at our last presentation to the Board, we strongly encourage management to accelerate the implementation of outstanding recommendations and action plans from past external audit reports.

Last, but certainly not least, **enterprise risk management (ERM)**. ERM has made strong progress since the last time the OAC reported to the Board and is now focused explicitly on critical strategic risks in its 2021 priorities. UNIDO management has integrated the monitoring of risk and results, and appointed Results and Risk Focal Points at the business unit level. This clarifies the importance of risk management as a means for achieving expected results. This link between risk management and accountability is articulated clearly in recently issued policies (e.g., the Accountability and Internal Control Frameworks).

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

**Resources to manage risk** effectively: The OAC understands the financial constraints under which UNIDO functions and the challenges of addressing them. We remain concerned that budgetary limitations create significant gaps in risk management. I will give just two examples: The External Auditor concluded that cybersecurity constituted a critical risk at UNIDO. UNIDO proposed a modest budget increment to address this; however, we understand that this was not approved by the member states. From an oversight perspective, this implies that the member states have concluded that the risk pointed out by the External Auditor is within their risk appetite. From the point of view of the OAC, this is a very large risk indeed to accept, particularly in light of the increasing threat level in IT security that we see manifesting globally in ransomware and other hacking incidents. We wish to emphasize the gravity of this matter: The External Auditor conducted a penetration test on UNIDO’s IT system and was able to access confidential internal UNIDO data via compromised user accounts.

This is true also in the context of the budget of the Office of Evaluation and Internal Oversight. Current resourcing does not allow the audit function to provide assurance over the identified high-risk and strategic areas, to perform timely, best practice investigations, or to undertake sufficient ex-post and impact evaluations that would allow UNIDO to better assess its contributions to the Sustainable Development Goals. This last point has also been raised by the External Auditor. The OAC suggests that the discussion on exploring other funding possibilities must continue at the highest level.

**Enterprise risk management:** Enterprise risk management has strongly evolved since the last time we reported to the Board and we look forward to a revised risk register towards the end of the year. Going forward, it is important for UNIDO management to develop clear, repeatable processes for determining risk tolerance and risk appetite against which recommendations can be assessed and risk mitigated appropriately.

**Results-based budgeting and management:** UNIDO has made significant progress in putting in place its first results-based budget. The next steps will be harder yet: There is still significant work to be done to formalize management practices, embed connections between the Operations Coordination Committee, Enterprise Risk Management, and other management structures, and link these to accountability processes as documented in the recent Accountability Policy. An important part of this includes making sure that budgets are congruent with both results and risk.

Similarly, setting operational targets and monitoring achievements is key to the success of RBB and RBM. This will be instrumental for transforming UNIDO's culture from input-oriented to outcome-oriented, and in establishing accountability for results. The OAC is glad that initial targets have been set and suggests that continued efforts are made to develop an institutional approach and supporting infrastructure for measuring results.

**Recommendations and Management Action Plans:** The OAC is concerned that the consolidation and implementation of recommendations, particularly from External Audit, but also from JIU, remains slow, and that there is currently not a process for ensuring that the Board itself tracks the implementation of agreed JIU recommendations that are addressed specifically to UNIDO's policymaking organs and subsidiary bodies. We strongly recommend that the Board put this in place.

**Investigation:** As we reported in writing to member states, the OAC, in line with its explicit mandate, reviewed a number of drafts of the investigation policy. We engaged in extensive discussions with the Director, EIO and after receiving the latest draft in May, provided formal feedback to the Director General on certain aspects of the Policy that we believe would benefit from reconsideration. These are: 1. Ensuring that any complaints that may arise against the Director of the EIO are handled independently and without bias; 2. Ensuring that the standard of proof used in investigations does not undermine UNIDO's zero tolerance policy; 3. Ensuring that the Policy also clearly articulates the standard of proof used in anti-retaliation investigations; and 4. Ensuring that the role of the Director General in investigations does not raise concerns about confidentiality or inadvertently undermine the independence of the Director of the EIO. We have not received a formal response from the administration on our feedback. We understand that the Policy is still under review and has not yet been promulgated.

We also want to bring to your attention the current resourcing of the Investigations function, which is insufficient in light of the caseload. The OAC is tracking the number of allegations received and investigations initiated, and has noticed that delays in completing preliminary reviews and full-fledged investigations are based in large part on staffing limitations.

**Independence:** In their 2000, 2011 and 2020 reports, the JIU highlighted the importance of budgetary and operational independence for the investigation function, including "the clear identification of the human and financial resources for the internal oversight and investigation office in the budget of the organization with delegated authority to manage those resources, subject to the organization's overall policies and procedures." It is important to note that there has not been any tension or disagreement between executive management and the EIO in this arena.

Nonetheless, given the risk posed by the budgetary constraints mentioned above, the OAC wants to underscore that it is important that the Board continue to monitor and ensure the full functional independence of the EIO in its hiring processes and its access to the approved budget.

**Closing:** This concludes our presentation. We want to thank the President of the Board, H.E. Mr. Darmansjah Djumala, for his availability to chair our meeting with Permanent Missions earlier this year. We hope to continue such briefings virtually and/or in person in Vienna.

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. Please do not hesitate to contact us as needed. Thank you.