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## **Industrial Development Board**

### **Fiftieth session**

Vienna, 21–23 November 2022

Item 16 of the provisional agenda

### **Evaluation and internal oversight activities**

## **Internal oversight activities**

### **Report by the Director of the Office of Evaluation and Internal Oversight**

The present document provides information on the activities of the internal oversight function in accordance with decisions IDB.44/Dec.3 and IDB.48/Dec.10, and updates the previous report contained in [IDB.49/23](#).

## **I. Background**

1. The Office of Evaluation and Internal Oversight (EIO) is responsible for the oversight functions of UNIDO, i.e. internal audit, investigation, and evaluation. The mandate of EIO is to provide independent and objective assurance, advice, investigation, and evaluation for the purpose of adding value to and improving the efficiency and effectiveness of UNIDO's operations, internal control framework, risk management, results-based management and governance processes. In addition, EIO is also the focal point for the coordination of the activities of the Joint Inspection (JIU) of the United Nations, and serves as the Secretariat to the UNIDO Independent Oversight Advisory Committee (OAC).

2. The internal oversight function (comprising internal audit and investigation) is governed by the EIO Charter,<sup>1</sup> Internal Audit Policy,<sup>2</sup> and Investigation Policy.<sup>3</sup> The internal oversight function is further guided by the internal audit manual, as well as the investigation guidelines, revised on 16 May 2022.<sup>4</sup>

3. Currently, the budgeted posts for EIO's internal audit and investigation functions comprise of five Professional and two General Service staff, including the

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<sup>1</sup> Director General's Bulletin DGB/2020/11, as approved by the Industrial Development Board in decision IDB.48/Dec.10.

<sup>2</sup> Director General's Bulletin DGB/2021/12.

<sup>3</sup> Director General's Bulletin DGB/2021/13.

<sup>4</sup> Administrative Instruction AI/2022/03.

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Chief of the unit, three Auditors, one Investigator and two support staff. According to the suggested JIU formula,<sup>5</sup> the range of internal audit professional staff at UNIDO should be between six and eleven, whereas it is currently at four.

## II. Key achievements in 2021

4. **EIO policy framework further strengthened:** A major stepping-stone achieved in 2021 was the issuance of the internal audit and investigation policies, further reinforcing the Office's oversight role, as well as its independence, as called for in the EIO Charter.

5. **The EIO risk and evidence gap assessment methodology,** and audit and evaluation universe were enhanced and aligned with UNIDO's medium-term programme framework 2022–2025 and results-based programme and budgets 2022–2023, to reflect UNIDO's strategic objectives in all five result areas. This provided a strong basis for ensuring alignment of EIO work with strategic areas of UNIDO, for a more effective selection and coordination of assurance services, and for optimizing complementarities and reducing potential duplication of efforts among all assurance providers (i.e. the internal audit function, the evaluation function, the External Auditor, and the JIU).

6. **EIO as an agile advisor in a period of uncertainty and rapid change:** Further to the issuance of the EIO strategy 2020–2024 in February 2020 as a key management and accountability framework for EIO, the Office continued adjusting its activities to ensure adding value to the achievement of the goals and objectives of the Organization and remaining strategically aligned. Despite the constraints and challenges imposed in the coronavirus disease (COVID-19) context, EIO remained agile and proved that its services are, and continue to be, key for informed decision-making, innovation, and change. According to management, the audit engagements added value to decision-makers, providing the basis for timely action and management action plans in key risk areas such as digital transformation, people management, and fraud risk management.

## III Overview of EIO internal oversight work

7. EIO, through the internal audit function's assurance and advisory services added value to the Organization's governance, risk management, and control processes with the following engagements:

(a) **Three advisory engagements were undertaken,** with reports issued in 2021: the advisory engagements on **UNIDO's competencies, Lessons learned from COVID-19** (undertaken jointly with the independent evaluation function), and **UNIDO's fraud risk management programme**. These engagements provided the basis for management action plans (MAPs) related to digital transformation, investments in infrastructure, people management, strategic workforce planning, and fraud risk management;

(b) The assurance review of the **full cost recovery (FCR) process** was launched at the end of 2021 and completed in May 2022. It provided the basis for MAPs, which will further strengthen the FCR process, from planning to reporting;<sup>6</sup>

(c) **Seven full-fledged investigations** were completed; and

(d) **Key ad hoc advisory activities** were provided with inputs, inter alia, to the first draft of the Grants Manual; the draft UNIDO policy on personal data protection; the review of the normative function of UNIDO; the update of the UNIDO Business Continuity Plan; the draft policy on sexual exploitation and abuse; the

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<sup>5</sup> JIU/2010/5, annexes, table 1.

<sup>6</sup> All advisory and assurance engagement reports are available on the Permanent Missions' Extranet.

High-level Committee on Management Investigator's Manual for the Investigation of Sexual Harassment Complaints in the United Nations; the information disclosure policy; the update of the retaliation policy; and the draft policy on exclusion from funding. EIO furthermore participated as an observer in task forces and working groups, including on resource optimization in technical cooperation, and the results and risk focal points network.

8. EIO confirms that in performing its internal audit and investigation activities during the reporting period, it functioned independently and objectively without any interference or influence from any internal or external parties. However, limitations due to operational budget and human resources constraints should be noted.

#### **IV. Implementation status of management action plans (MAPs)**

9. EIO followed up regularly with responsible offices on the status of the implementation of MAPs, which is as follows as per 31 December 2021: out of a total of 83 MAPs, 57 are closed (47 closed – implemented; 10 closed – management accepts risk), and 14 MAPs are due. The remaining 12 MAPs are not yet due. This represents an improvement of the implementation rate which reached 57 per cent in 2021, as compared to 41 per cent in 2020. EIO continues to monitor the implementation of MAPs and supports management in the process, inter alia, through cooperation with the Senior-level Focal point for the implementation of recommendations and MAPs. A risk escalation process for risk acceptance of outstanding internal audit MAPs was developed and promulgated in November 2021.

#### **V. Cooperation with United Nations and other oversight bodies**

10. Active engagement in activities of the United Nations Representatives of Internal Audit Services and the United Nations Representatives of Investigation Services continued. In addition, consultations with the External Auditor were conducted to share workplans, expand the coverage of assurance activities and cooperate in areas such as information technology security, and FCR, for efficient use of limited resources and to avoid duplication of work.

#### **VI. Strengthening governance of the internal oversight functions**

11. The EIO internal oversight function continues to provide the OAC with an overview of its activities during its regular meetings, and shares its workplans with the OAC for advice.

#### **VII. Outlook**

12. Based on an updated risk assessment methodology<sup>7</sup> the biennial EIO internal audit workplan for 2022–2023 was approved by the Director General in early 2022. Two audits on the operationalization and promulgation of administrative issuances, and on long-term agreements in procurement have been initiated. EIO's internal audit workplan will remain flexible and agile in order to proactively consider emerging risks and challenges in UNIDO's evolving operations and business environment.

13. In 2022, the Director General initiated an organizational reform and restructuring of UNIDO, which will be duly considered in the review and update of EIO workplans for 2022–2023. A midterm review of the EIO Strategy will also be conducted to ensure EIO's internal audit and investigation functions continue to meet the needs for oversight, accountability and learning in the new organizational context,

<sup>7</sup> Paragraph 6 refers.

and that EIO keeps contributing to a more efficient, effective and impactful Organization.

14. As noted by the External Auditor, the OAC, and JIU, the resource situation continues to represent a scope limitation. No significant resource increase is foreseen. Therefore, the internal oversight function is not in a position to fully cover, through its workplan, all identified high-risk and high-priority business activities. The OAC highlighted in particular that urgent attention must be given to strengthening the EIO investigation function with adequate staffing and resources.

15. As ever, the impact of internal oversight and evaluation, through its effective independent, credible and objective functions assisting the Organization in achieving its goals, depends ultimately on the continuous support received from UNIDO's senior management and its Member States.

## **VIII. Action required of the Board**

16. The Board may wish to take note of the information provided in the present document.

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