



## **Industrial Development Board**

### **Fiftieth session**

Vienna, 21–23 November 2022

Item 15 of the provisional agenda

### **UNIDO Independent Oversight Advisory Committee**

## **Report of the Independent Oversight Advisory Committee**

### **Report by the Chair**

This document is issued pursuant to decisions IDB.44/Dec.4 and IDB.48/Dec.5, which adopted the revised terms of reference for the Independent Oversight Advisory Committee (OAC). The present report provides information on the OAC's activities and advice.

## **I. Introduction**

1. Since the Independent Oversight Advisory Committee (OAC) last reported to the Board ([IDB.49/22](#)), the OAC held multiple meetings virtually due to travel restrictions. This included its seventh and eighth meetings in July and December 2021 respectively. The ninth meeting took place at UNIDO headquarters in June 2022.
2. The OAC work continues to focus on the key mandate defined in its terms of reference.
3. For 2022, the OAC continues to emphasize three priority areas: results-based management (RBM); independence and resources for oversight functions (evaluation, investigation and internal audit); and implementation of recommendations and management action plans (MAPs).
4. This document provides highlights on: (a) key achievements by UNIDO in governance, accountability, evaluation and internal audit; and (b) key areas of residual risk the OAC believes the Board should be aware of and consider in its deliberations.
5. The OAC takes note of the ongoing reform and restructuring of UNIDO under the Director General, Mr. Gerd Müller. The OAC will follow up on the impact of this reform on areas related to its mandate, such as governance, accountability, oversight, compliance and RBM. The OAC remains ready to provide specific advice to the new administration on any related areas, as requested.

For reasons of sustainability, this document has not been printed. Delegates are kindly requested to refer to electronic versions of all documents.



## II. Progress in governance, risk management and oversight at UNIDO

### Office of Evaluation and Internal Oversight

6. The OAC is pleased to recognize that the Office of Evaluation and Internal Oversight (EIO) has promulgated revised evaluation (DGB/2021/11), internal audit (DGB/2021/12) and investigation (DGB/2021/13) policies in September 2021, and issued Investigation Guidelines in May 2022 (AI/2022/03).
7. The OAC reviewed the delivery status of EIO evaluation and internal audit workplans for 2022–2023. The OAC noted the strategic alignment of EIO workplans, and welcomes that these plans will be reviewed and, if necessary, adjusted to align with the outcome of organizational restructuring and new management priorities.
8. The OAC recognizes EIO's internal audit and evaluation engagements conducted in the last year, in particular, the:
  - First joint advisory engagement undertaken by audit and evaluation functions on COVID-19 lessons learned;
  - Internal audit assurance review of the full cost recovery process; and
  - Independent evaluations of UNIDO's Policy (2015) and Strategy (2016–2019) on Gender Equality and Empowerment of Women, UNIDO's medium-term programme framework (MTPF) 2018–2021 and of the Programme for Country Partnership in Senegal.

### External audit

9. The OAC is pleased with the unqualified opinion by the External Auditor in their report on the accounts of UNIDO for the financial year 1 January to 31 December 2021 (IDB.50/3–PBC.38/3) and has provided comments on the report (PBC.38/CRP.3).
10. The OAC recommends that management accelerate the implementation of outstanding recommendations and action plans from past external audit reports.

### Coordinating management action plans

11. The OAC took note of the Director General bulletins announcing the new structure for some Directorates<sup>1</sup> and noted that the establishment of the function of the Focal Point for the monitoring and implementation of recommendations and MAPs (formerly assigned to the Managing Director of the Directorate of Corporate Management and Operations) is not yet explicit. This role is key to coordinating monitoring and implementation as a management responsibility. It should have a very high level of authority to ensure the implementation of MAPs.
12. The OAC strongly recommends that UNIDO management consolidate the recommendations and MAPs from different assurance providers for prioritization of various actions.

## III. Challenges requiring further attention

### Results-based budgeting and management

13. The Organization is learning from the first results-based budget. Tracking results for non-operational (e.g. financial) targets is less challenging than operational results, and outcome and impact, where baselines were not available. The current budget cycle will help provide the baselines. In the next annual report, the OAC would expect to see more evidence of results. The main challenges are the quality of data

<sup>1</sup> DGB/2022/14 of 3 August 2022 and DGB/2022/15 of 5 August 2022.

and coverage, and having a more systematic use of data and indicators for decision-making. UNIDO still has a long way to go, and there is need for culture change.

14. Aligning strategy to the programme and budgets and to workplans remains a gap and a major challenge. The MTPF evaluation highlights these issues and MAPs have been formulated to address them.

15. Overarching constraints on skills and capacities need to be addressed to foster a stronger RBM culture in-house.

16. Another challenge is to ensure Member States' commitment to the process by recognizing the importance of allocating budgets according to results, ensuring that UNIDO continues moving forward with RBB under the next budget cycle.

### **Oversight function within UNIDO**

17. The OAC reiterates the concerns it has raised previously, also noted by the External Auditors, that the inadequate operational resources devoted to the Office of Evaluation and Internal Oversight do not allow it to cover priority high-risk and evidence gaps at UNIDO from an audit, evaluation and investigation perspective. Resource constraints mean that the assurance EIO can provide to the Board is limited.

18. The OAC reiterates that there is a need for a more transparent, sustainable and predictable operational budget for independent oversight functions. The OAC appreciates that its recommendation to clearly separate resources for EIO functions in the programme and budgets is being considered in the current UNIDO restructuring. Urgent attention should be given to strengthening the EIO investigation function with adequate staffing and resources.

### **Enterprise risk management**

19. During its regular meetings, the OAC was provided updates by the former Special Adviser to the Director General on Operations Coordination and Risk Management on activities and challenges in connection with enterprise risk management (ERM).

20. The OAC noted that challenges exist with the implementation of the Results and Risk Focal Points' network and that this required further institutionalization, and that currently the process did not appear to be owned by management. At the date of writing this report, the location and responsibilities for the ERM function within the new UNIDO structure has not been articulated. The OAC will follow up on this matter.

### **Information technology and cybersecurity**

21. The OAC has received updates on the challenges related to information technology (IT) and cybersecurity, and notes with concern that there has not been much progress in funding to address the gaps that increase IT security risk and future budgetary implications if not resolved.

22. The OAC noted that a data protection policy is under development.

### **UNIDO reform and restructuring**

23. The need for change management within UNIDO during and after the announcement of the structural changes is crucial. The OAC encourages the Director General to make use of the OAC's advice in strengthening UNIDO's governance and accountability framework.

24. Strong support by the Director General on RBB, RBM and ERM is essential to make the Organization more result-focused, more effective and impactful.

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

25. The Board may wish to take note of the information contained in the present document and provide guidance on the following:

(a) Suggested priority areas for further attention by the OAC in 2022 and 2023; and

(b) Further strengthening the EIO functions, as an independent authority over the financial and human resources allocated to EIO, based on the EIO Charter (Board decision IDB.48/Dec.10).

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