



United Nations Industrial Development Organization

Distr.: General
8 May 2023

Original: English

Industrial Development Board

Fifty-first session

Vienna, 3 to 6 July 2023

Item 13 of the provisional agenda

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 Oversight Advisory Committee (OAC) last reported to the Board (IDB.50/22), the OAC held its tenth meeting in person in November 2022, at UNIDO Headquarters. During this meeting, the OAC met with the Director General, senior management and the External Auditor, and briefed the President of the Board on its discussions and findings, as well as the Informal Working Group on Programme and Budget Committee-related issues.
2. For 2023–2024, the OAC continues paying attention to the following three priority areas: Results-based management (RBM); independence and resources for oversight functions (evaluation, investigation, internal audit); implementation of recommendations and management action plans. The OAC will follow up on the impact of the organizational reform on areas related to the OAC mandate, such as governance, accountability, oversight, compliance and RBM.
3. This document provides highlights on: (a) key achievements made by UNIDO within OAC's focus areas since the 9th OAC meeting held in June 2022; and (b) key areas of residual risk in oversight the OAC believes the Board should be aware of and consider in its deliberations.
4. With regards to the ongoing UNIDO reform and restructuring since its promulgation in October 2022,¹ the OAC has followed up on its impact on areas

¹ Director's General Bulletin (DGB/2022/19) of 7 October 2022.

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



within the OAC mandate. The OAC remains ready to provide specific advice to management on any related topic, as needed.

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

Office of Evaluation and Internal Oversight

5. The OAC took note of the enhanced organizational independence of the Office of Evaluation and Internal Oversight (EIO), as detailed in the new organizational structure. It noted, however, that EIO resource gaps highlighted in the organization-wide stocktaking exercise remain open and yet to be addressed.

6. The OAC advises that attention should be paid to strengthening the EIO investigation and evaluation functions with adequate staffing and resources to allow EIO to discharge its mandate and provide adequate assurance, addressing critical risks and strategic challenges the Organization faces.

7. The OAC reviewed the implementation status of EIO evaluation and internal audit work plans completed after its ninth meeting. The OAC reiterates its concerns raised previously, that the inadequate operational resources devoted to EIO would indeed limit the operational independence of the oversight functions, hence negatively affecting organizational governance, accountability and learning.

8. The OAC wishes to reiterate 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 currently being considered.

9. To further ensure the operational independence of the EIO evaluation function, in line with the recommendations of the Joint Inspection Unit of the United Nations System, UNIDO should consider de-linking evaluation budgets from project budgets to allowing the Organization to move towards a more strategic selection of project/programme evaluations, rather than continuing with single project evaluations. The OAC took note that EIO is preparing an updated approach to address this issue.

External Audit

10. The OAC is pleased with the unqualified opinion by the External Auditor (PBC.39/3) and has provided comments on the report of the External Auditor (PBC.39/CRP.3).

11. The OAC continues to follow up with management regarding the implementation of outstanding recommendations and action plans, in particular those that are critical, from past external audit reports.

Monitoring and implementation of management action plans

12. The OAC takes note that the Director General recognized that further attention needs to be given to implementing management action plans (MAPs) and recommendations from different assurance providers. The assignment of the Managing Director, Directorate of Corporate Services and Operations as senior-level focal point (SLFP) to oversee and coordinate the implementation of MAPs and recommendations from internal and external assurance providers is well noted by the OAC. The OAC also notes that, in addition to the new responsibility and accountability for the implementation of MAPs and recommendations assigned to all Heads of Directorates and Divisions under the new organizational structure,² the SLFP will report to the Leadership Board (LB) periodically, and that the LB in turn

² Ibid.

will provide guidance, as needed, for the implementation of recommendations and MAPs, as per the recently issued Terms of Reference of the LB.³

Enterprise risk management

13. The OAC notes that challenges exist with the implementation of the UNIDO Enterprise Risk Management (ERM) policy⁴ and that currently the location and responsibility of the ERM function are not articulated in the new organizational structure and remain unclear.

14. The OAC reiterates its advice to formally re-establish the ERM function at a high senior management level to oversee and operationalize the implementation of the ERM policy with clear and repeatable processes for identifying and assessing risks, determining risk tolerance and risk appetite at UNIDO. The OAC notes that management has indicated that this issue is being addressed.

III. Challenges requiring further attention

Results-based management (RBM) and results-based budgeting (RBB)

15. The OAC notes that the alignment of UNIDO's corporate strategy to programme and budgets and to work plans is limited and remains a major challenge.

16. Other challenges to overcome are the quality of data and coverage, and having a more systematic use of data and indicators for decision-making and for reporting on the achievement of results and the impact of the Organization's work.

17. The OAC notes that fostering a stronger RBM, accountability and compliance culture in UNIDO is required.

18. The OAC also notes the request from UNIDO management to its governing bodies to introduce more flexible budgeting arrangements, rather than the fixed budgeting arrangements prevailing at present. This change will allow to reap more benefits of the RBB. The OAC recognizes that Member States' commitment will be required to support this initiative.

19. Strong support from the Director General and a clear tone at the top on RBB, RBM and ERM, on accountability, oversight and good governance are essential to make the Organization more result-focused, more effective and impactful.

Innovative technology (IT) and cybersecurity

20. The OAC received updates on the continuous challenges related to IT and cybersecurity, and notes with concern that there has not been much progress in terms of funding and resources to address the gaps that increase IT security risk and future budgetary implications, if not resolved.

21. The OAC notes that a UNIDO Information Security Policy and a Policy on the Protection of Personal Data were promulgated.

UNIDO reform and restructuring

22. In its last report, the OAC noted that a change management process within UNIDO is crucial to facilitate, oversee and correct, as needed, the implementation of the reform and reorganization of the Secretariat. The OAC noted, however, that no clear timelines were targeted for the restructuring and communication of the same. At its tenth meeting, the OAC met with the UNIDO Office of Change Management and advised that, to reap the benefits of the restructuring, UNIDO work on a definite timeline and change management plan.

³ Director General's Bulletin (DGB/2023/06) of 16 March 2023.

⁴ Director General's Bulletin (DGB/2021/01) of 22 January 2021.

23. The OAC takes note of the new internal governance structure of UNIDO, which was established with the promulgation of the terms of references of the Business Procedures Committee, Operations Committee and of the Leadership Board in March 2023.

24. The OAC is pleased to note the prominence the Director General is giving to innovation in the Organization's new strategic focus. The OAC advises management to pay attention to organizational culture and morale (inclusiveness, encouraging risk taking and providing a psychological safe space) and to provide a framework as well as to motivate and empower staff to be enthusiastic participants in this process.

25. The OAC encourages the Director General to continue making use of OAC's advice in strengthening UNIDO's governance, oversight and accountability framework.

IV. Action required of the Board

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

- (a) Suggested areas for further attention by the OAC in 2023 and 2024; and
 - (b) Further moving towards enhanced EIO operational independence in terms of adequate resources and budget allocations to be clearly reflected in the UNIDO programme and budgets, to ensure the discharge of EIO's mandate in line with its Charter (Board decision IDB.48/Dec.10).
-