



Industrial Development Board

Fifty-first session

Vienna, 3–6 July 2023

Item 2 of the provisional agenda

Adoption of the agenda

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.50/25.

I. Background

1. The Office of Evaluation and Internal Oversight (EIO) is responsible for three core oversight functions in UNIDO: evaluation, internal audit and investigation. Its mandate is to provide independent and objective assurance, advice, investigation and evaluation to add value to and improve the efficiency and effectiveness of UNIDO's operations, internal control framework, risk management, results-based management and governance processes. EIO is also the focal point for coordinating the activities of the Joint Inspection of the United Nations (JIU) 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,¹ Internal Audit Policy² and Investigation Policy.³ The internal oversight function is further guided by the internal audit manual, as well as the investigation guidelines.⁴
3. EIO's oversight role and its independence were reinforced by the promulgated UNIDO Secretariat Structure 2022 (document DGB/2022/19).
4. Currently, the EIO internal audit and investigation functions' budgeted posts comprise five Professional and two General Service staff, including the Chief of the

¹ Director General's Bulletin DGB/2020/11.

² Director General's Bulletin DGB/2021/12.

³ Director General's Bulletin DGB/2021/13.

⁴ Administrative Instruction AI/2022/03.

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



unit, three Auditors, one Investigator and two support staff. In addition, a Junior Professional Officer has been assigned to the audit function.

II. Key achievements during the reporting period

5. **EIO's enhanced policy framework and performance, which are critical components of UNIDO's governance and accountability structures, continued to enhance the Organization's credibility with its key partners and donors.** For example, in 2022, EIO contributed to UNIDO's achievement of a "fully compliant" status with the Minimum Fiduciary Standards of the Global Environment Facility (GEF), in an external assessment conducted by KPMG Finland on GEF's behalf. Additionally, EIO contributed to UNIDO successfully meeting the requirements of the Department for Business, Energy and Industrial Strategy of the United Kingdom of Great Britain and Northern Ireland, resulting in a €70 million funding agreement.

6. **EIO's risk and evidence gap assessment methodology, and its audit and evaluation universe were further enhanced** and aligned with the new UNIDO Secretariat structure, the UNIDO medium-term programme framework 2022–2025 and the programme and budgets 2022–2023, and to reflect UNIDO's strategic objectives in all five result areas. This provided a strong basis for ensuring alignment of EIO work with the new strategic priorities 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.

7. **EIO served as an agile advisor in a period of uncertainty and rapid change:** In 2022, EIO remained agile and proved that its services are, and continue to be, a key for informed decision-making, innovation and change, in particular, following the Organization's restructuring. According to management, the audit engagements added value to decision makers by providing the basis for timely action and management action plans in key risk areas. In this regard, the key achievements were the approval of the UNIDO information security policy and the establishment of the function of an Information Security Officer. This was, inter alia, the result of EIO's efforts to identify the risks associated with the absence of an information security function, to closely follow up on relevant audit findings and to provide advice during the drafting of the policy.

8. **EIO contributed to further strengthening and institutionalizing the follow up process to recommendations and Management Action Plans (MAPs):** EIO provided support to Senior Management by preparing and issuing seven distinct EIO summary notes on previous audit and evaluation engagements, reflecting on challenges, gaps and issues of relevance and priority to the Organization. These summaries were shared concurrently with all Managing Directors and lead managers in December 2022. They were requested to report to the Leadership Board on the status of implementation of all agreed MAPs periodically through the Managing Director, Directorate of Corporate Services and Operations (COR), in his role as Senior-level Focal Point (SLFP) for monitoring the implementation of recommendations and MAPs from all assurance providers.

III. Overview of EIO internal oversight work

9. Through the internal audit function's assurance and advisory services, EIO added value to the Organization's governance, risk management and control processes with the following engagements: one assurance engagement (audit) and one assurance review were undertaken, with reports issued in late 2022 and early 2023, respectively.

(a) The audit of **long-term agreements (LTA) in procurement** provided assurance that the LTA process is clearly understood and roles and responsibilities are established; the objectives of the process are clearly set; internal controls are efficient

and effective; and sound and correct reporting and monitoring is established. This engagement provided the basis for MAPs related to an improved operationalization and monitoring of LTAs in UNIDO.

(b) The assurance review of the **promulgation and operationalization of administrative issuances in UNIDO** assessed the effectiveness of UNIDO's processes for promulgating and operationalizing administrative issuances, comprising Director General's Bulletins (DGBs), Administrative Instructions, and Information Circulars.⁵ The results of this engagement, among others, contributed to the establishment of the new internal governance system in UNIDO.

10. The investigation function continues to contribute to the culture of accountability, ethics, integrity and good governance within UNIDO. In 2022, a total of 24 complaints of misconduct were received. The majority of allegations received related to fraud, corruption and other financial irregularities; followed by misconduct (other than sexual misconduct); sexual misconduct; and retaliation. The caseload is in line with the average received over the past five years, with about 23 per cent thereof warranting full-fledged investigations. To raise awareness and transparency, an information circular on UNIDO's response to misconduct in 2021 was issued on 6 May 2022. The investigation function proactively contributed to fraud awareness activities and promoted the roll-out of the centralized complaint intake mechanism.

11. Key ad hoc advisory activities were provided with inputs, inter alia, various grant agreements between UNIDO and donors; the update of UNIDO's Business Continuity Plan and appendix; the policy of personal data protection; the policy on sexual exploitation and abuse; the information security policy; update of the retaliation policy; the internal control framework; and the anti-harassment policy. EIO furthermore participated as an observer in task forces and working groups.

12. EIO confirms that in performing its internal audit and investigation activities during the reporting period, it functioned independently and objectively without any interference and/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)

13. EIO followed up regularly with responsible offices on the status of implementation of MAPs, which is as follows as per 31 December 2022: out of a total of 83 MAPs, 64 are closed (54 closed – implemented; one closed – management accepts risk; 9 in risk escalation), 19 MAPs are due and the remaining 7 MAPs are not yet due. This represents an implementation rate of 60 per cent in 2022, as compared to 57 per cent in 2021, which is a slight improvement. In September 2022, the Director General appointed the new SLFP for the implementation of recommendations and MAPs. EIO introduced the SLFP to his new role and continues to support him in his function.

V. Cooperation with United Nations and other oversight bodies

14. Active engagement in activities of the United Nations Representatives of Internal Audit Services and the United Nations representatives of Investigation Services continued. In addition, coordination among investigation services to address integrity issues within the United Nations system proved to be fruitful. Consultations with the External Auditor were conducted to share work plans, expand the coverage of assurance activities and cooperate in some areas; for efficient use of limited resources; and to avoid duplication of work.

⁵ All advisory and assurance engagement reports are available on the Permanent Missions' Extranet.

VI. Strengthening governance of the internal oversight function

15. The EIO internal oversight function keeps providing the OAC with an overview on its activities during its regular meetings, and sharing its work plans with the OAC for advice before issuance.

16. A midterm review of the EIO Strategy was conducted in the first quarter of 2023 to ensure that EIO's functions continue to meet the needs for oversight, accountability and learning in the new organizational context, and to keep contributing to a more efficient, effective and impactful Organization.

VII. Outlook

17. Based on an updated risk and evidence gap assessment methodology, the revised EIO internal audit work plan for 2023 was approved in early 2023. An audit on the handover of projects in the restructuring process has been initiated. Two further assurance reviews on the selection of implementing partners and internal controls in the second line of the UNIDO Three Lines model, have also been initiated. EIO's internal audit work plan will remain flexible and agile to proactively consider emerging risks and challenges in UNIDO's evolving operational and business environment.

18. Within the current resources limitations, the internal audit function is not in a position to fully cover all identified high-risk and high-priority business activities through its work plan. In particular, the OAC highlighted that urgent attention be given to strengthening the EIO investigation function with adequate staffing and resources. Management has taken this advice on board and it is foreseen that the function will be strengthened in 2023.

19. 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

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