



Industrial Development Board

Fifty-second session

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Item 14 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 Board decisions IDB.44/Dec.3 and IDB.51/Dec.10, and updates the previous report contained in document IDB.51/24. In line with Board decision IDB.51/Dec.10, summaries of relevant internal audit engagements will be provided in conference room paper IDB.52/CRP.9.

I. Background

1. The Office of Evaluation and Internal Oversight (EIO) is responsible for three oversight functions in the United Nations Industrial Development Organization (UNIDO): independent evaluation, internal audit and investigation. Its mandate is to provide independent and objective assurance, advice, evaluation and investigation services to enhance accountability and learning, and to add value to and improve the efficiency and effectiveness of UNIDO's operations, internal control framework, risk management, results-based management and organizational governance processes.
2. The internal oversight function, comprising internal audit and investigation, is governed by the EIO Charter,¹ the UNIDO Internal Audit Policy² and the UNIDO Investigation Policy.³ It is further guided by the Internal Audit Manual as well as the Investigation Guidelines.⁴

¹ Director General's Bulletin DGB/2020/11, as contained in document IDB.48/25 and approved by the Industrial Development Board in decision IDB.48/Dec.10.

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.



3. EIO provides the Independent Oversight Advisory Committee (OAC) with an overview of its activities during its regular meetings and shares its workplans with OAC for feedback before issuance.

II. Internal audit coverage during the reporting period

4. EIO issued nine strategic- or corporate-level internal audit reports covering various aspects of UNIDO’s priorities and operations. These include advisory engagements and ad hoc reviews to inform senior management’s decision-making on risk management and efforts towards achieving greater organizational results. Figures 1 and 2 present the overview of internal audit reports by engagement type and business areas, respectively.

Figure 1
Reports by engagement type (nine reports)

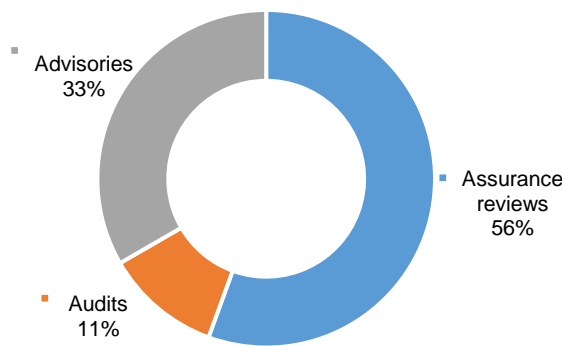
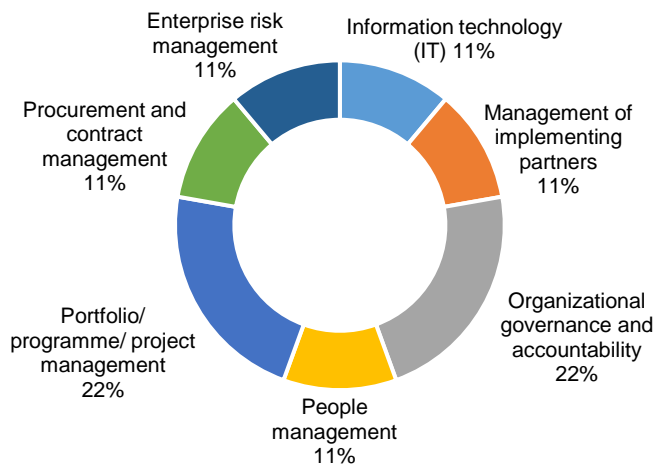


Figure 2
Reports by business areas (nine reports)



5. EIO’s assurance engagements contributed to an improvement in the efficiency and effectiveness of UNIDO’s processes and strengthened controls when needed. As an example, due to one assurance review, savings of €181,670 and a reduction in staff workload were achieved in Asset Management and Logistics Services.

6. EIO designed and facilitated capacity-building workshops for the Directorate of Corporate Services and Operations. The workshops aimed to strengthen the Organization’s internal control environment by establishing a common understanding of the UNIDO Three Lines Model and its link to the UNIDO Internal Control Framework. There were seven sessions of the workshop in which a total of 84 managers, team leaders and other personnel were trained.

7. The internal audit function provided advisory support to management through inputs and comments on 28 administrative issuances, strategic and operational documents, and agreements. Figures 3 and 4 provide an overview of EIO's advisory support to management.

Figure 3

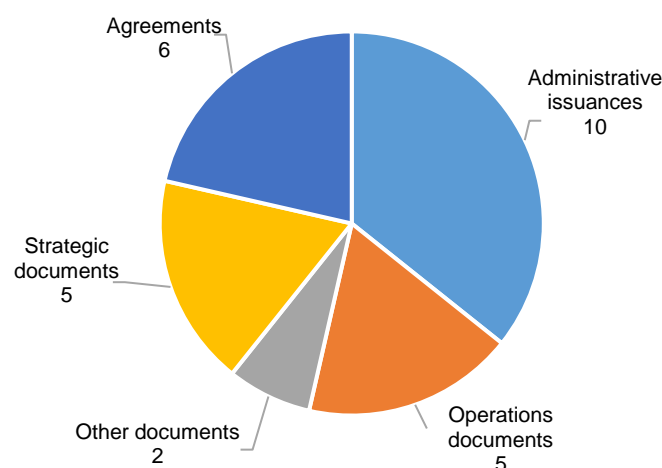
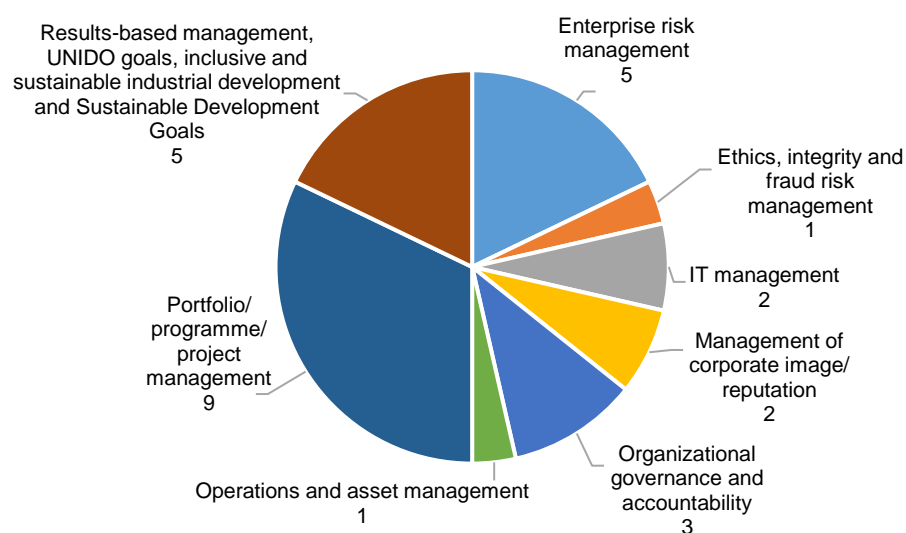
Advisory support by document type

Figure 4

Advisory support by business areas

III. Overview of internal audit and investigation work

8. The EIO internal audit function added value to the Organization's governance, risk management and control processes with the below-listed engagements. Summaries of the engagements will be provided in an accompanying conference room paper (IDB.52/CRP.9).

<i>Engagements in 2023</i>	<i>Type</i>
Handover of projects in the UNIDO restructuring process	Audit
Selection of UNIDO implementing partners	Assurance review
Internal controls in the second line of the UNIDO Three Lines Model	Assurance review
Privileged user access management of selected enterprise resource planning systems	Assurance review
Enterprise risk management	Assurance review
Project implementation	Ad hoc assessment
Procurement process improvements	Ad hoc assessment
Implementation of audit and evaluation processes in TeamMate+	Assurance review

9. The EIO investigation function continues to contribute to the culture of accountability, ethics, integrity and good governance within UNIDO. In 2023, a total of 22 complaints of misconduct were received. The majority of allegations received related to misconduct, other than sexual misconduct; followed by fraud, corruption and other financial irregularities. Based on allegations of misconduct received, EIO completed 17 preliminary evaluation reports and issued three investigation reports.

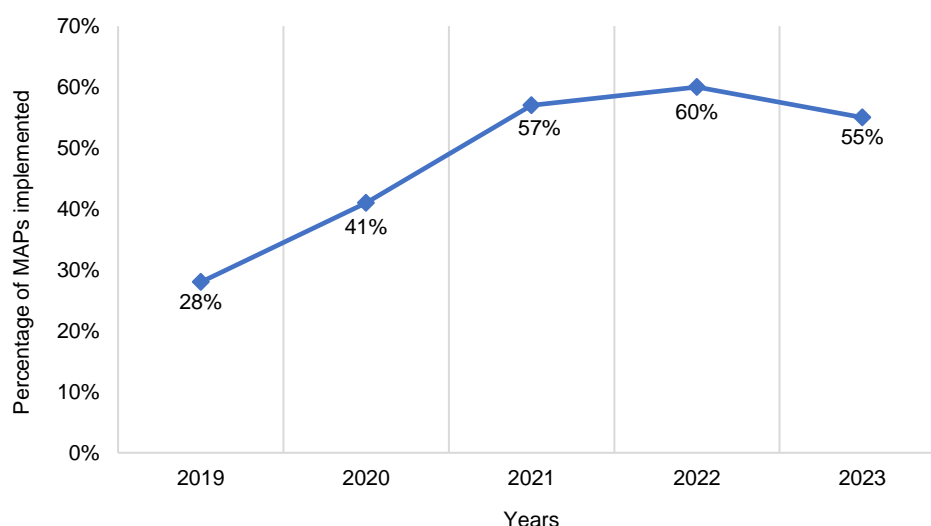
10. The caseload is in line with the average received over the past five years, with about 17 per cent thereof warranting full-fledged investigations. To raise awareness and transparency, an information circular on UNIDO's response to misconduct in 2023 was issued on 16 May 2024. In addition, EIO proactively contributed to fraud awareness activities.

11. EIO confirms that in planning and performing its internal oversight activities during the reporting period, it functioned independently and objectively without interference and influence from any internal or external parties. However, limitations due to operational budget and human resources constraints should be noted (section VI below).

IV. Implementation status of management action plans

12. While the implementation of management action plans (MAPs) is a management responsibility, EIO continued to follow-up on and facilitate their implementation, including by holding meetings with Managing Directors and new MAPs owners, and by automating the follow-up process. The implementation of MAPs remained at the level of 55–60 per cent in 2023, as shown in figure 5, presenting the percentage of implementation of all internal audit MAPs issued and implemented since 2019.

Figure 5
Cumulative implementation rate of internal audit MAPs in the past five years



13. In 2023, 12 per cent of MAPs due for completion that year or earlier were implemented. At the end of the year, 29 MAPs were overdue, and only four were implemented. Senior management’s attention was drawn to the related organizational risks and the importance of the timely implementation of MAPs, as addressing them will contribute to the optimization of technical cooperation processes and full cost recovery; effective and efficient allocation of resources; enhancement of internal processes, including staff planning and development, and procurement processes; as well as strengthening the internal governance structure.

14. Following the establishment of a new risk acceptance communication procedure in 2024, EIO will communicate more explicitly the residual or accepted high and critical risks, where appropriate, in the annual reports to the Director General and the Board, as well as in presentations to OAC.

V. Quality assurance and improvement of the internal audit function

15. In line with the International Standards for the Professional Practice of Internal Auditing, an external quality assessment of the internal audit function was completed on 31 May 2024. The assessment once again concluded that the function “generally conforms” with the Standards, which is the highest possible rating.⁵ The assessors concluded that the UNIDO internal audit is a mature function, which provides high-quality reports and is valued by senior management and other stakeholders. During the assessment, key stakeholders, including the President of the Board, OAC members and the External Auditor, were interviewed. Several successful practices have been highlighted in the report, demonstrating the function’s commitment to excellence and alignment with the Organization’s strategic goals.

16. Apart from the enhanced risk communication, two areas for improvement were identified: the need for acquiring solid internal IT audit expertise and for ensuring an adequate operational budget for EIO, possibly as a percentage of the regular budget, as is the case in some other United Nations organizations. Such a dedicated budget, at least for travel and training, would substantially enhance the operational independence of EIO.

17. In this context, the EIO will be building on the OAC’s advice and the Board’s recent decision IDB.51/Dec.10, paragraph (f), that requests the Secretariat “to ensure, for the biennium 2026–2027, transparent, sustainable, and predictable funding for independent evaluations and internal oversight functions”. Furthermore, EIO

⁵ Information note to Permanent Missions, No. 24, dated 25 June 2024.

reiterates the need for the Board to continue its consideration of and calls for transparent, sustainable and predictable funding for independent evaluations and internal oversight functions.

VI. Resources

18. Currently, the budgeted posts of the EIO internal oversight (internal audit and investigation) comprise six Professional and two General Service staff categories, including the Chief of Unit, three auditors, two investigators and two support staff.

19. As noted in the external quality assessment report, EIO does not have a dedicated operational budget for training, consultancy, travel and technology.

20. Furthermore, within the current resource limitations, the internal audit function is not in a position to fully cover all identified high-risk domains in its workplan.

VII. Outlook

21. Based on an updated risk assessment methodology, the EIO internal audit and investigation workplans for 2024–2025 were approved in February 2024. An assurance review of enterprise risk management in UNIDO and a review of the Guidelines for Development Cooperation Programmes and Projects were completed in early 2024.

22. An assurance review of internal governance mechanisms of UNIDO has been initiated. Two further engagements are planned for 2024: an audit on projects with innovative finance components and an assurance review of the governance framework for a digitally-enabled, fit-for-purpose UNIDO. The internal audit workplan for 2025 includes internal audit engagements on the financial reporting processes, recruitment process and IT general controls, as well as a joint engagement on a country or subregional office. The EIO internal audit workplan will remain flexible and agile to proactively consider emerging risks and challenges in UNIDO's evolving environment.

23. As ever, the impact of EIO, through its 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

24. The Board may wish to take note of the information contained in the present document.
