



Industrial Development Board

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Item 13 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.51/22](#)), the OAC held its eleventh and twelfth meetings in person in June 2023 and April 2024 respectively, at UNIDO headquarters. During these meetings, the OAC met with the Director General, senior staff of his office, senior management and the External Auditor, and subsequently briefed the President of the Board, as well as the Informal Working Group on Programme and Budget Committee-related issues, on its discussions and findings. The OAC Chair attended the eighth meeting of the United Nations system oversight committees in December 2023, the outcomes of which were shared with OAC members.
2. The OAC continues to maintain a standing agenda which allows the Committee to focus on all aspects of its responsibilities in keeping with its terms of reference. All meetings held were quorate and all members attended in person.
3. Since the OAC's last report, there have been changes to the OAC's membership. The terms of former Chair Mr. Lakshman Athukorala and Mr. Elmar Vinh-Thomas came to an end in November 2023. Ms. Sabina Blaskovic, appointed in November 2022, resigned in February 2024. The membership of the Committee currently consists of Mr. Michael N. Parker, Chair, Mr. Tuncay Efendioglu, Vice-Chair, Ms. Susan Verghese and Mr. Ibrahim James Pam. Both Ms. Verghese and Mr. Pam joined the OAC in November 2023.

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4. For 2024–2025, the OAC continues to focus mainly on the organizational governance of UNIDO, the reform process, accountability, results-based budgeting (RBB), enterprise risk management (ERM) and full cost recovery (FCR).

II. Oversight of accountability, governance and financial management

UNIDO's reform and restructuring

5. As the OAC focuses on the internal governance within the Organization, the ongoing reform was a major highlight of the discussions held with management. Based on the reports presented and interviews conducted with senior management, it is the view of the OAC that the reform process is progressing at a slow pace and has had some challenges.

6. The OAC observed that one of the approaches taken by the management was to revise the organizational structure to be flatter and leaner. The initial publication of the new structure in October 2022, reduced the number of Directorates from six to four. However, in June 2024 the structure was again revised to five Directorates, contradicting the originally declared objective of a leaner structure.

7. The OAC is of the view that the organizational restructuring should be done strategically and in line with the needs and expectations of the Member States and the mandate of the Organization. Also, the restructuring should have a clear timeline to mature. This would enable UNIDO to reap the benefits of the effective and efficient functioning of the Organization with the new structure, while avoiding any diluted accountability caused by frequently changing duties and responsibilities.

8. Based on interviews held with senior management and a personnel satisfaction survey conducted by the Staff Council, the OAC observed that staff buy-in in relation to the reform is very low. Staff members, including at the senior level, appear to have limited knowledge of the reform process and its objectives. The OAC is of the view that management has, thus far, not taken an inclusive approach in the execution of the reform, which may have resulted in a level of speculation and miscommunication among staff.

9. In its report to the Director General after the twelfth OAC meeting in April 2024, the OAC had suggested the following:

(a) UNIDO should evaluate the reform process to assess the progress made thus far, identify gaps and determine if it is on track to achieve the overall objectives; and

(b) Management should take steps to garner greater staff involvement in the process.

Technical cooperation delivery

10. The OAC notes that the management of UNIDO reported a 25 per cent increase in technical cooperation (TC) delivery for the year 2023 and offered that a 25 per cent increase in TC delivery be a yearly target going forward.

11. The OAC had raised the question with management as to what a 25 per cent increase in TC represents. Based on a report by the Managing Director of the Directorate of Technical Cooperation and Sustainable Industrial Development (TCS) at the UNIDO Global Town Hall meeting on 8 April 2024, net approvals of TCS in 2023 increased by €41 million to €184 million, resulting in a 25 per cent increase over the previous year. The OAC believes that TC delivery must be linked to the actual implementation of projects and programmes promoting development in Member States. The best indicator to measure this is the actual expenditure on TC projects and programmes. TC delivery should also be measured by qualitative targets, allowing for a better assessment of the development impact in Member States.

Office of Evaluation and Internal Oversight

12. The Office of Evaluation and Internal Oversight (EIO) presented its workplans for 2024–2025 and the OAC reviewed and provided feedback. At the twelfth OAC meeting in April 2024, the EIO provided updates on the implementation status of workplans including internal audit, evaluation and investigation.

13. *Evaluation:* The OAC welcomes the revised criteria for an independent evaluation, removing the mandatory EIO evaluation of projects valued at \$2 million and over. Instead, the independent evaluation of projects is now being conducted based on their strategic importance and potential impact. Furthermore, EIO encourages the compliance of all projects with UNIDO’s monitoring and reporting policy through the conduct of at least one systematic self-evaluation.

14. *Internal audit:* The internal audit has reported that the second-line functions in UNIDO need strengthening in the area of continuous monitoring of strategies implementation and results reporting.

15. *Investigation:* The OAC is pleased to note that the EIO has shown marked improvement in the handling of investigation cases, where the average duration of preliminary evaluation and full investigation has decreased over the years since 2020. The preliminary data produced by EIO showed that the average duration to complete a full investigation moved from 11 months in 2020 to nine months in 2022 and 2023, and the preliminary evaluation moved from seven to four months.

External audit

16. The External Auditor reviewed the UNIDO financial statements for the year ended 31 December 2023 and gave an unmodified opinion. The OAC is concerned about the slow pace in implementing outstanding external audit recommendations.

III. Matters requiring further attention

Enterprise risk management

17. In light of the ongoing reform process, UNIDO faces increased risks and challenges. The OAC is concerned about the effectiveness of the Organization’s ERM function, which has also been a major concern for the Committee in the past. The OAC notes that an ERM policy was developed and that the decision was taken to create a new unit for ERM and compliance as a decentralized function. However, the ERM function has not yet become very active or effective within the Organization.

18. Management should take immediate steps to identify, manage and mitigate risks in a proactive manner within the Organization. In addition, immediate steps should be taken to have an updated risk register that includes all the key risks facing UNIDO.

Results-based budgeting and full cost recovery

19. The OAC is concerned about the slow pace of implementing the RBB method in formulating UNIDO’s budget. Management needs to clearly define and strengthen the results framework so that resources can be determined to support the achievement of specific results, thereby making it easier to link funding to the resources required to achieve particular outcomes.

20. Management should fast-track the full implementation of FCR strategies, which would also support the efficiency of the RBB process. The OAC supports the recommendation of the External Auditor to develop a cost-accounting system to provide a mechanism to determine the actual cost in support of the FCR system.

IV. Action required of the Board

21. The Board may wish to take note of the information contained in the present document and provide guidance by suggesting areas for further attention by the OAC in 2024 and 2025, and on how the OAC can further assist the work of the Board.
