



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

Management response

The present document contains the management response to the report of the Independent Oversight Advisory Committee in document [IDB.52/22](#), in line with decision IDB.48/Dec.5 and paragraph 3 of the terms of reference attached to the same decision.

1. Management took note of the valuable advice provided by the Independent Oversight Advisory Committee (OAC) in its report to the Board ([IDB.52/22](#)).
2. Management appreciates the OAC's interest in the impact of the organizational reform of UNIDO in areas related to the OAC's mandate, such as oversight, accountability, governance, financial management, enterprise risk management (ERM), results-based budgeting (RBB) and full cost recovery (FCR).
3. Management looks forward to further engaging with the OAC, and to receiving further strategic and practical advice from the committee on the latter's priority areas, namely: organizational governance, the reform process, accountability, ERM, RBB and FCR.
4. Management has duly noted the areas highlighted by the OAC in its report, on which some relevant updates are provided below.

UNIDO's reform and restructuring

5. The revision of the Secretariat structure was indeed born from the considerations set out in paragraph 7 of the report of the OAC. As noted in the Director General's Bulletin on the UNIDO Secretariat Structure 2024 (DGB/2024/03), the 2024 revision was based on the needs and priorities expressed by Member States, the recommendations of both internal and external audits, and feedback from the personnel of the Organization. It was also informed by the newly negotiated programme and budgets 2024–2025.

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6. The reference to a leaner structure was communicated in terms of flatter hierarchies, whereby staff in the professional category at the P4 level can for instance assume management responsibility and lead over organizational units and field offices as Heads. This effort also aimed to open vacancies for more internal applicants such as UNIDO Country Representatives in the field or consultants.

7. In terms of strategy, document DGB/2024/03 sets out that the revision aimed to:

- (a) Enhance strategic planning and strategic programming functions;
- (b) Respond to feedback from the Organization regarding the need to maintain focus on the quality and impact of UNIDO programmes and projects;
- (c) Address organizational needs such as risk management and knowledge management;
- (d) Position cross-cutting functions (e.g. Division of Gender Equality and the Empowerment of Women) strategically to broaden their reach, better facilitate their work across the Organization and therefore amplify their impact; and
- (e) Make maximum use of the expertise of UNIDO personnel and ensure optimal allocation of resources.

8. Furthermore, in relation to reaping the benefits of the new structure and avoiding diluted accountability caused by frequently changing duties and responsibilities, the 2024 review was communicated to signal a period of consolidation following the preceding changes. This was intended to bring a greater degree of certainty and was complemented by more clarity on resource allocations delivered through increased information made available in document DGB/2024/03 than had previously been the case.

9. The stated basis for the Director General's decision to further adjust the structure of UNIDO included the needs and priorities expressed by Member States in numerous bilateral meetings and policymaking organ sessions, such as ensuring better regional balance with a focus on Latin America and the Caribbean in terms of senior staff representation. Furthermore, focus was also placed on strategic work, better quality assurance and results monitoring where functional responsibilities had to be enhanced.

10. The 2024 review process addressed factors related to staff buy-in and knowledge of the reform and its associated rationale, adopting an inclusive approach in its execution. It also followed a consultative process, applying effective change management approaches, including the consideration of lessons learned from the 2022 restructuring and the prioritization of internal communication by the Director General. A temporary Change Management Team was established to coordinate and facilitate the restructuring process. The 2024 review process included initial consultations with each Managing Director, which were followed by two full rounds of written consultations with the respective Directorates to inform the development of the revised structure and associated terms of references. The revised structure was discussed at three meetings of the Leadership Board. Personnel were kept informed through email updates and a presentation at a UNIDO Global Town Hall convened in April 2024. Individual consultations with managers and personnel were also conducted throughout the process. All staff members where a change in position was to take place were consulted in advance.

11. Management will take action to further strengthen and enhance communication with personnel through more engagements and dialogues at the directorate and divisional levels.

Technical cooperation delivery

12. The support of funding partners to UNIDO technical cooperation (TC) services reached unprecedented levels in 2023. Funds mobilized amounted to \$328.4 million, which represents an increase of 44 per cent compared to 2022. The total portfolio of

projects and programmes for future implementation grew by \$103.7 million to \$725.6 million, of which \$323.3 million represents future payments under agreements already signed. This will support the delivery of UNIDO projects and programmes in the coming years. The funding approved for the growing demand in UNIDO TC services increased by \$41.3 million to \$241.3 million, net of programme support costs. This increased support of funding partners, coupled with significant efforts by the Organization to further strengthen its responsiveness, led to a 25 per cent higher delivery of UNIDO services compared to 2022, reaching \$225.2 million.

Office of Evaluation and Internal Oversight

13. As provided in the reports by the Director of the Office of Evaluation and Internal Oversight (EIO) in documents [IDB.52/24](#) and [IDB.52/25](#), EIO will continue providing independent and objective assurance, through its three oversight functions (internal audit, evaluation and investigation) 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.

14. Based on a risk and evidence gaps reassessment, the EIO evaluation and internal audit workplans for 2024–2025 were approved in February 2024. It took into consideration EIO strategic objectives, key changes in the internal and external environment, new UNIDO strategic priorities, management concerns and ongoing challenges.

15. However, within the current resource limitations, the evaluation and internal audit functions are not in a position to fully cover all identified high-risk and evidence-gaps domains in its workplans.

16. As advised by the OAC, and in line with Board decision IDB.51/Dec.10, EIO will continue exploring the possibilities for establishing a sustainable and predictable evaluation, internal audit and investigation operational funding or similar mechanism, to further strengthen the operational independence of the evaluation and internal oversight functions.

External audit

17. UNIDO management remain committed to addressing open recommendations, with each of the respective business areas having continued their efforts in that regard.

18. The Divisions of Financial Resource Management (COR/FIN) has established an internal task force to solve the pending recommendations of the External Auditor without delay.

19. Other new initiatives have been launched to prompt faster progress, including an overview of progress against open external audit recommendations being included in the agenda of the Leadership Board meetings, and regular progress reports being submitted to the Managing Director of the Directorate of Corporate Services and Operations (COR).

20. UNIDO management will take action to expedite solutions to all pending audit observations.

Enterprise risk management

21. The establishment of the Risk Management and Compliance Unit (COR/RCU) within COR was formalized with the issuance of the Director General's Bulletin on the UNIDO Secretariat Structure 2024 (DGB/2024/03).

22. The Unit comprises key risk management roles fulfilled by two professional category staff: one at the P4 level (Head of Unit) and one at the P3 level (Information Security Officer), as well as one monthly short-term staff (Enterprise Risk Management Assistant).

23. The workplan of the Unit includes updating the ERM policy, developing a risk-control matrix and embedding risk management within strategic planning processes, such as for the medium-term programme framework (MTPF) and the programme and budgets.

24. The Unit is also responsible for implementing a comprehensive information security governance framework in alignment with ISO 27000 standards, and intends to provide a regular update on the steps that UNIDO is taking to combat cybersecurity threats, and ensure that robust security practices are in place.

25. Furthermore, COR/RCU would implement and ensure compliance with recommendations from External Auditors and internal oversight bodies. These efforts are critical to enhancing the Organization's ERM and accountability measures, and adopting best practices.

26. The development of a risk appetite statement is also a key component of the Unit's workplan. It is envisioned that such a statement would help UNIDO to better identify and prioritize potential risks, and establish thresholds for effective decision-making and resource allocation.

27. It is noted that the following steps have been taken to identify, manage and mitigate risks in a proactive manner within the Organization:

(a) The ERM focal point has conducted bilateral meetings with UNIDO Managing Directors and the Office of the Director General, securing commitment to routinely engage on ERM-related matters, particularly regarding the Organization's top risks and treatment plans;

(b) COR/RCU is engaging closely with the newly established Strategic Planning Unit to integrate risk management considerations, including the identification of strategic medium-term risks, in the MTPF preparation;

(c) Furthermore, a consultative process for risk identification is planned to be integrated into the preparation of the programme and budgets 2026–2027.

Results-based budgeting and full cost recovery

28. COR/FIN is analysing the current RBB structure and linking of resources to results. The work will be closely aligned with management priorities, strategic planning and UNIDO's MTPF.

29. Management will address the matter from planning, implementation, monitoring and reporting viewpoints. The programme and budgets 2026–2027 will include a strengthened RBB approach. The approved budgets will be the basis for implementation, monitoring and reporting in this context. The approved programme and budgets 2024–2025 establish the framework for implementation of RBB during the current biennium.

30. It is also noted that a cost-accounting system to provide a mechanism to determine the actual cost in support of the FCR system has been developed by the Digitalization, Innovation and TC Optimization Services (COR/DIT) and is available for testing.

31. Action will be taken by COR/FIN for the operationalization of the recently approved FCR methodology, with support from COR/DIT.

32. Management would also like to draw the attention of donors to the FCR requirements. The inclusion of related provisions into donor agreements and project plans is a prerequisite for the effective implementation of FCR.

33. Management will follow up on these matters and update the OAC at its next meetings on the status of any new progress made in the committee's focus areas for 2024–2025.