

**Statement by Michael Parker, Chairman  
of the Independent Oversight Advisory Committee  
at the Fifty-second session of the Industrial Development Board  
(agenda item 13) 26 November 2024**

Mr. President,  
Your Excellencies,  
Distinguished delegates,  
Ladies and gentlemen,

Good day,

I am honoured for the opportunity to present this report on behalf of the Independent Oversight Advisory Committee (OAC), highlighting our findings and recommendations based on activities since our last session.

For the interest of those excellencies and distinguished delegates who may be taking part in this agenda item for the first time, let me give a brief overview on the mandate of the OAC. The OAC was established in 2017 by the Industrial Development Board (IDB) to review and advise on governance-related issues at the United Nations Industrial Development Organization (UNIDO), including financial regulations, internal controls, risk management, internal audit, evaluation, investigation functions, and external audit. The OAC is also required to submit an annual report to the IDB containing its advice.

Since our last report to the Board, the OAC held its eleventh and twelfth meetings in person in June 2023 and April 2024 respectively, at UNIDO Headquarters. We also had our 13<sup>th</sup> meeting during the period November 5<sup>th</sup> to 7<sup>th</sup> 2024. During these meetings, the OAC met with the senior management, 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.

This statement outlines the activities, findings, and recommendations of the OAC as presented in our report in document IDB.52/22 as well as highlights and updates from our 13<sup>th</sup> meeting.

In regards to the on-going reform process in UNIDO, the OAC is of the view that the reform is progressing slowly with inconsistent restructuring plans. For example, there was an initial reduction of Directorates from six to four. However, in June 2024, the structure was again revised to reflect five Directorates, which contradicts the originally declared purpose for a leaner structure. The OAC has recommended that UNIDO evaluate the progress of the reform to identify gaps and establish clear timelines for reform implementation.

The Office of Evaluation and Internal Oversight (EIO) recently conducted an assurance review of UNIDO's internal governance mechanisms. The assurance report highlighted weaknesses where Governance Committees such as the Leadership Board (LB) and Operations Committee (OP) are underperforming and lack alignment with strategic priorities. It was also noted that the delegation of authority within the Organization remains ambiguous, and communication

between management and staff needs to be improved. The OAC has recommended that management develop Management Action Plans (MAPs) with clear deadlines to address these issues, as well as to establish accountability frameworks and performance standards for the Leadership Board and the Operations Committee. We believe that it is also crucial for UNIDO's Management to strengthen the internal governance systems by enhancing communication and inclusiveness to build trust among staff and other stakeholders.

The OAC also observed that based on a staff survey conducted by the Staff Council and discussions held with some key staff, that the staff morale within the Organization is low. Concerns were raised about fears of retaliation, unclear policies, and perceptions of unfair practices. Words such as 'nepotism' and 'abuse of authority' were used. It is observed where there are a growing number of ethic complaints being handled by EIO, Human Resources (HR), and the Ethics and Accountability Unit, which impact negatively on their available resources. The OAC is very concerned and is strongly recommending that senior management transparently handle staff-related issues, strengthen HR policies, and to foster an open and honest culture where staff can voice concerns without fear.

In regards to Technical Cooperation (TC) delivery targets, the OAC commends management of aiming to achieve an ambitious target of 25% annual increase in TC delivery. However, the OAC observed that the method for measuring TC delivery is still not clear. Based on a TC implementation report presented to the OAC, it showed a 0.5% increase in TC delivery at the end of October 2024. However, management has reported to the OAC an increase of approximately 22% at the end of October 2024. The OAC continues to emphasize that TC delivery must be measured by actual expenditure on TC projects and an official method for measurement must be developed. Management must also develop a mechanism to augment the quantitative targets for TC delivery with qualitative outputs and outcomes in an effort to assess the benefits to member states.

The OAC continues to monitor the implementation of the Enterprise Risk Management (ERM) Framework within UNIDO. Despite some improvement in this area, we are still concerned that ERM is not being executed in an integrated way and needs to be aligned with the organizational strategic priorities and objectives. We have recommended that the Organization should adopt a structured approach for risk identification, assessment, and mitigation and develop clear roles and responsibilities for risk management.

The implementation of Full Cost Recovery (FCR) continues to be the intention of management. However, the OAC observes that the FCR is still not developed and implemented in a formal way within the Organization. It is important for official procedures and policies to be developed for FCR and to take on board the recommendation of the External Auditors to establish a cost accounting system that will support FCR.

OAC took positive note of management actions to establish a RBM system clearly linking program management to budget implementation and increasing operational effectiveness and efficiency across the Organization enabling UNIDO to achieve its value proposition to its Member States.

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The OAC took note of the External Auditors review of UNIDO's 2023 Financial Statements and that an unmodified opinion was given. We have submitted our comments (PBC.40/CRP.3) on the Report of the External Auditor to the Programme and Budget Committee's fortieth session.

The extended delays for the implementation of MAPs are of major concern to the OAC. We believe that the belated implementation would have contributed to the deficiencies in internal governance, weakens the control environment while diluting accountability and depriving UNIDO of benefitting from potential cost efficiencies and enhancements of its overall operational functioning.

In closing, the OAC is suggesting that immediate attention be given to addressing the critical governance deficiencies highlighted by the EIO, improving staff engagement and morale to ensure a supportive organizational culture, and to finalising the reform process in an effort to improve efficiency in the Organization. It is important to note that while UNIDO has achieved some success at the macro level, these achievements may be eroded if the internal weaknesses are not addressed.

The OAC is requesting that the IDB note the findings and recommendations of our reports and provide necessary guidance on any priority areas for the OAC to focus on.

I wish to thank the Board for its attention and reaffirm OAC's commitment to supporting UNIDO's mission and to encourage collaboration to address highlighted issues for a more effective and accountable Organization.

Thank you.