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## Industrial Development Board

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### Internal oversight activities

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### Report by the Director of the Office of Internal Oversight

The present document provides information on the activities of the internal oversight function in accordance with decision IDB.44/Dec.3.

## I. Overview

1. The Office of Internal Oversight and Ethics (IOE) is established by the Director General in accordance with Financial Regulation 9.1 and Financial Rule 109.1.15 and is governed by its Charter, Investigations Guidelines and the Code of Ethical Conduct. The mandate of IOE covers all systems, processes, operations, functions, and activities of UNIDO. In addition to its primary functions of internal audit, investigation and ethics, IOE is also the focal point for coordination on activities of the Joint Inspection Unit.
2. In performing its functions, IOE follows the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA) for internal audit, and the Uniform Principles and Guidelines for Investigations endorsed by the Conference of International Investigators for investigations.
3. IOE's budgeted posts comprise four Professional and two General Service staff. In 2016, IOE began with four staff, namely a Director, an Auditor/Inspector and two support staff (a Senior Oversight Assistant and an Oversight Assistant). Two further Professional posts, namely an Investigator and an Auditor/Inspector post, were vacant during 2016, resulting in capacity limitations for both internal audit and investigations. Consultancy services were contracted for investigations during the latter part of 2016.

For reasons of economy, this document has not been printed. Delegates are kindly requested to bring their copies of documents to meetings.

\* Reissued for technical reasons on 24 May 2017.



Table 1  
Overview of staffing

		2012	2013	2014	2015	2016
	Budgeted Posts	Occupancy	Occupancy	Occupancy	Occupancy	Occupancy
Director — D1	1	1	1	1	1	1
Auditor — P4	1	1 <sup>a</sup>	1	1	1	1
Auditor — P3	1	1 <sup>b</sup>	1 <sup>b</sup>	Vacant	Vacant	Vacant
Investigator — P3	1	1 <sup>c</sup>	1	1	1	Vacant
Support staff — GS	2	2	2	2	2	2
Total	6	6	6	5	5	4

<sup>a</sup> Vacant until 31 May 2012.

<sup>b</sup> Incumbent on sick leave for most of the year.

<sup>c</sup> Vacant until 31 July 2012.

4. As a consequence of budgetary and staffing constraints, IOE deferred some internal audit activities to 2017. This posed a challenge to the ability of IOE to fully discharge its oversight responsibilities.

5. In compliance with the IIA standards, IOE has been using an annual risk assessment methodology since 2005. Improvements are made to it progressively to cover evolving risk components and auditable entities, which include geographical locations, processes, functions, and special entities of UNIDO. The risk assessment methodology covers the entire risk assessment process using both qualitative and quantitative risk indicators. The final risk ranking determines the areas to be audited by IOE, based on availability of resources.

6. The latest risk assessment was undertaken in 2015 to develop the risk-based audit work plan for the biennium 2016-2017, consistent with the Organization's goals. The risk assessments are updated annually to consider changes in the Organization's operations, programmes, risks, systems, and controls, and revisions are made to the work plan as necessary.

7. During 2016, IOE issued four audit reports: two financial statement audits and two SAP process audits. In addition, three investigation reports were issued.

8. Table 2 below depicts an overview of reports issued in the last five years.

Table 2  
Overview of reports by year of issue

	2012	2013	2014	2015	2016
	Total reports issued	Total reports issued	Total reports issued	Total reports issued	Total reports issued
Internal Audit	3	5	5	5	4
Investigative (incl. systemic issues)	5	1	8	5	3
Other (e.g. JIU, IOE)	1	1	1	1	1
Total	9	7	14	11	8

9. IOE continued its advisory role and support to all levels of management on requests received on a wide range of issues. These include, inter alia, policy development, donor agreements, single audit principle, One UN/Delivering as One, enterprise risk management, implementing partners, and European Commission (EC) verifications.

10. IOE confirms that during 2016, in performing its internal audit and investigation activities, it functioned independently and objectively without any interference and/or influence by any internal or external parties.

## **II. Overview of internal audit work**

11. The audit of the SAP Supplier Relationship Management (SRM) module was completed and the report issued to management on 5 February 2016. As the first audit of SRM since the implementation of the ERP system SAP in UNIDO, the audit focused on the procurement process using various sourcing channels. These channels include fast track, centralized, decentralized, waivers, and long-term agreements embedded within SRM, as well as strategic procurement planning. During the audit, areas such as design of controls, effectiveness of controls, integrity of data/information, compliance with rules, and procedures were reviewed, as was the integration with other SAP modules.

12. The audit report on the SAP Human Capital Management module (HCM) was issued to management on 29 February 2016. The review focused on processes, systems, key risks and controls within the human resources environment for compliance with human resource management (HRM) regulations, rules, manuals and HRM work processes. It also reviewed processes inherent in SAP HCM with focus on design of controls, effectiveness of controls and integrity of data/information.

13. Two financial audits on the 2015 financial statements of the Catering Services and on the Major Replacement and Repair Fund (MRRF) were completed and reports issued in July and August 2016 respectively.

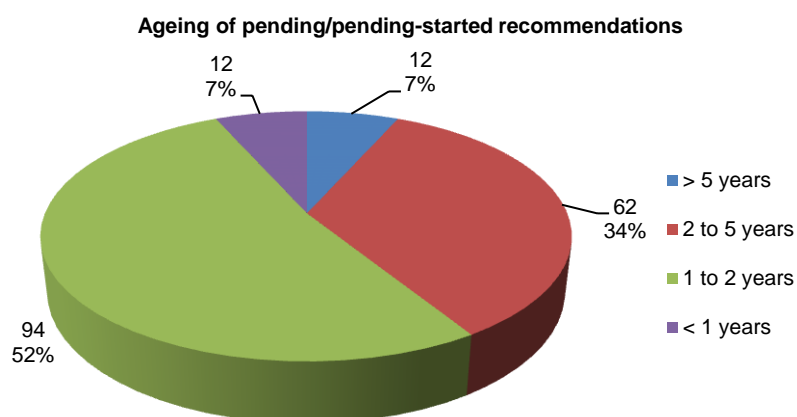
14. A total of 36 recommendations were made as a result of the four internal audit reports issued in 2016. All were accepted and action plans provided by the auditee/s.

15. The fieldwork of the Egypt Regional Office audit was completed and the draft report issued to auditees in December 2016. The final report was issued in January 2017.

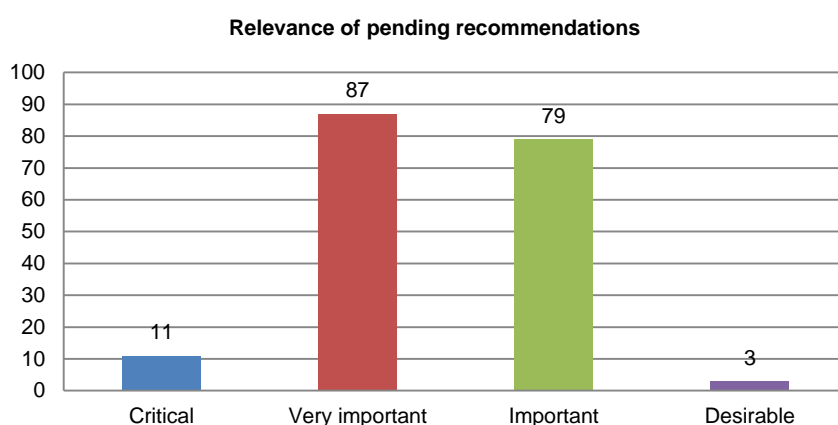
## **III. Implementation status of recommendations**

16. IOE reviewed the implementation of all recommendations outstanding as at 31 December 2015. As indicated in table 2 above, 7 audit and investigative reports were issued in 2016 (excluding the JIU report to the Board), resulting in 44 new recommendations.

17. During 2016, 65 recommendations from previous years were closed. The cumulative implementation rate of open audit recommendations issued since 2006 was 60 per cent as at 31 December 2016 (63 per cent in 2015). In 2017, IOE will once again work closely with management to monitor long outstanding recommendations to ensure that they are implemented and closed.



18. IOE ranks recommendations in four categories of relevance; critical, very important, important, and desirable. An analysis depicting the outstanding recommendations by relevance is shown below.



#### IV. Collaboration with other oversight bodies

19. UNIDO's External Auditor once again reviewed IOE operations during the team's visits to the Headquarters. IOE provided all necessary explanations and documents required for the audit.

20. IOE consulted with the External Auditor to update their planned field visits during 2016, to expand the coverage of assurance activities in field offices, for efficient use of limited resources and to avoid duplication of work.

21. Formal collaboration continued with the Independent Evaluation Division, in particular in the areas of information-sharing, planning and visits to country offices.

22. IOE continued its active participation in the United Nations system's internal audit and investigative communities in support of United Nations-wide coherence and harmonization efforts.

23. IOE continued its comprehensive work as JIU focal point for UNIDO.<sup>1</sup>

#### V. Strengthening IOE governance and operations

24. In fulfilling a long-outstanding recommendation made by the External Auditor and the Independent Validator, the decision to establish an Independent Audit

<sup>1</sup> A separate report on the activities of the JIU is available as IDB.45/14.

Advisory Committee was made at the forty-fourth session of the Board in November 2016 (IDB.44/Dec.4). The establishment of the Audit Committee further strengthens the independence of IOE and complies with international standards and best practice. The selection of members to the Audit Committee is to be completed by June 2017, with the aim of holding the first meeting during the second half of 2017. A full update on this matter will be provided in document IDB.45/15.

25. IOE continued the reporting to the Director General through the quarterly summary report introduced in 2012.

26. The decision by the Board that the Member States should receive IOE's internal audit reports issued to the Director General and management (IDB.44/Dec.3) is considered by current and potential donors for UNIDO activities to be a transparent approach and a positive development.

## **VI. Outlook**

27. IOE will continue its best efforts to fulfil its mandate and continuously improve its ability to provide internal audit, investigative and advisory services that lead to enhancing UNIDO's governance, oversight, management decision-making, and accountability. IOE will also continue to emphasize quality while providing its services. To meet emerging risks and changing priorities during 2017, its work plan will remain flexible and adaptable to the extent possible.

28. Although IOE directs its effort on internal audit through the use of a risk-based audit planning methodology, given its resources, the office cannot devote adequate attention to all identified high-risk and critical areas. However, due to the importance of internal audit activities, IOE plans to build on past experience in conducting field office audits and improve the internal audit approach when planning for and conducting audits in 2017.

29. IOE will continue to address allegations of wrongdoing made to the office. Priority will continue to be given to dealing with high-risk situations, and if required, over internal audit and IOE governance work.

30. IOE's budgetary resources continue to not be commensurate with UNIDO's varied and increased operations, as well as its geographic span, or with the expanded IOE investigative and Audit Committee mandate. This has been compounded by the vacancies which have consequently impacted the work plan. The recruitment of suitably qualified candidates to vacant positions is vital to the functioning of this office.

31. As mentioned, including by the previous External Auditor and other review bodies, the resource situation continues to represent a significant scope limitation. As no resource increase is foreseen, IOE is therefore, according to the International Auditing Standards which IOE follows, in itself a risk towards the Organization as it is not in a position to satisfactorily fulfil its mandate.

32. As ever, the impact of IOE as an effective independent and objective internal oversight body assisting the Organization in achieving its goals and objectives depends ultimately on the continuous support received from senior management and its Member States.

## **VII. Action required of the Board**

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