



United Nations Industrial Development Organization

Distr.: General
12 April 2019

Original: English

Industrial Development Board

Forty-seventh session

Vienna, 1–3 July 2019

Item 13 of the provisional agenda

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 decision IDB.44/Dec.3, and updates the previous report contained in IDB.46/17.

I. Background

1. The Office of Evaluation and Internal Oversight (EIO) is responsible of the oversight functions, which include internal audit and investigation (internal oversight function) as well as the independent evaluation function. The internal oversight function provides independent and objective assurance, advice, investigation, and evaluation for the purpose of adding value to and improving the efficiency and effectiveness of UNIDO's operations, internal control framework, risk management, results-based management and governance processes.
2. EIO is composed of two divisions: the Independent Evaluation Division (EIO/IED) and the Internal Oversight Division (EIO/IOD).
3. The internal oversight function is established in accordance with Financial Regulation 9.1 and Financial Rule 109.1.15 and is governed by the EIO Charter,¹ Investigations Guidelines and the Code of Ethical Conduct. The mandate of the oversight function covers all systems, processes, operations, functions, and activities of UNIDO. In addition to its primary functions of internal audit and investigation, IOD is also the focal point for coordinating the Joint Inspection Unit activities, and serves as the Secretariat to the Audit Advisory Committee (AAC).

¹ As per Director General Bulletin DGB/2019/07.

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



4. The internal oversight function follows the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA), and the Uniform Principles and Guidelines for Investigations.

5. In 2018, the internal oversight function's budgeted posts comprised five and a half Professional and two General Service staff. EIO/IOD started on 1 February 2018 with six staff – one Chief, two Auditors, one Investigator and two support staff. The recruitment process for a P-2 position was initiated in 2018 and completed on 1 April 2019, as shown in table 1.

Table 1

Overview of staffing

Posts occupied	2015	2016	2017	2018
Director – D-1	1	1	1	0.5
Chief – P-5 ^a	-	-	-	1
Auditor – P-4	1	1	Currently occupied by P-3 ^b	Currently occupied by P-3
Auditor – P-3	Vacant	Vacant	1 ^c	1
Auditor – P-2	-	-	-	Vacant ^d
Investigator – P-3	1	Vacant	1	1
Support staff – GS	2	2	2	2
Total number of posts occupied	5	4	6	6.5

^a Occupied as of 1 February 2018.

^b Occupied by P-3 from 27 June 2017.

^c Post was filled on 1 August 2017.

^d Post was filled on 1 April 2019.

6. Clear value continued to be added by AAC. Based on its 2018–2019 workplan, the AAC's work focused mainly on: (a) Increasing the alignment of the internal audit work programme with UNIDO's business objectives, strategies and risks; (b) Accelerating the implementation of audit recommendations; and (c) Strengthening the internal audit function in line with leading IIA best practices.

7. Thanks to the continued regular dialogue with the AAC during 2018, important improvements towards aligning internal oversight work, procedures and practices with UNIDO's strategy as well as leading best practices, took place. In particular, the internal audit function:

(a) Aligned its risk methodology and annual work planning process with UNIDO's strategy: The risk methodology was revised in line with UNIDO's medium-term programme framework, and its integrated results and performance framework. The revised methodology uses both top-down and bottom-up approaches. The top-down approach considers senior management and the Board's views on risks, while the bottom-up approach considers information on opportunities and risks from the heads of key business units, the Risk Management Committee (RMC), as well as other assurance providers;

(b) Improved its internal processes and procedures: Through this process, long outstanding audit recommendations declined by 30 per cent in 2018. In addition, EIO/IOD started a synthesis engagement to insightfully analyse the outstanding recommendations to support their implementation in 2019. The audit manual was revised to provide detailed guidance on internal audit procedures and practices;

(c) Improved its coordination with other assurance providers: Through the assurance map, EIO/IOD has improved its coordination with other assurance providers as well as management functions within the Second Line of Defence. The assurance map has drawn management's attention to weaknesses in the Organization's Second Line of Defence. In 2019, EIO in collaboration with the RMC, will further engage with senior management to further strengthen the Second Line of Defence;

(d) Improved its communications with audit clients: EIO/IOD revised its audit reporting process to further improve its communication with audit clients. An observations worksheet has been introduced as a basis to agree on realistic management action plans. This approach has improved management's ownership and contributed to improving the trust from audit clients;

(e) Revised its Quality Assurance Improvement Programme (QAIP): EIO/IOD revised its QAIP to further strengthen the monitoring and supervision of the internal audit function. The revised QAIP provided a strong basis for the external quality assurance based on a self-assessment of the audit function, which was started in 2018.

8. During 2018, four audit reports and two investigation reports were issued. Table 2 below shows an overview of reports issued in the last five years.

Table 2

Overview of reports by year of issue

Reports issued	2014	2015	2016	2017	2018
Internal audit	5	5	4	5	4
Investigation	8	5	3	5	2
Other (e.g. JIU, IOD)	1	1	1	1	1
Total	14	11	8	11	7

9. EIO confirms that during 2018, in performing its internal audit and investigation activities, it functioned independently and objectively without any interference and/or influence from any internal or external parties. However, operational limitations due to budget constraints should be noted.

II. Overview of internal audit work in 2018

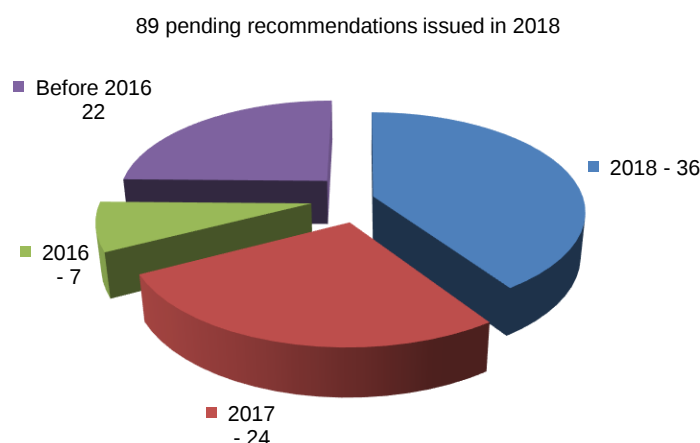
10. The reports issued were: the audit of the China Regional Office, the payments process, and the financial statements 2017 of the Catering Services and the Major Repairs and Replacement Fund (MRRF). The detailed reports are available on the Permanent Missions extranet.

11. A total of 41 issues were reported and management action plans were agreed to address them.

III. Implementation status of recommendations

12. During 2018, EIO/IOD was able to close 76 recommendations from previous years. The number of pending recommendations was 89, of which 36 were issued in 2018 and the remaining 53 have been outstanding for more than one year.

Figure 1
Recommendations



IV. Cooperation with other oversight bodies

13. The External Auditors were consulted to update their planned field visits during 2018 to expand the coverage of assurance activities in field offices; for efficient use of limited resources; and to avoid duplication of work.

V. Strengthening governance operations of the internal oversight function

14. The first and second meetings of AAC were held in January and November 2018.

15. During both meetings of AAC, meetings with senior management, as well as the Board President were held. Two briefings via video link were provided by the AAC, on 7 March and 12 November 2018. They were well received by Member States, and it was agreed to continue the practice.

16. EIO held three teleconferences with AAC. On 18 June, the AAC's comments on the report of the External Auditor were circulated to all Permanent Missions, and thereafter included in the formal report to the Board (IDB.46/16). It was agreed that in future, these comments be provided as conference room papers to the Programme and Budget Committee.

17. During its second meeting in Vienna from 28 to 30 November, the AAC once again met with various senior managers as well as the Co-chairs of the informal working group on the Programme and Budget Committee-related matters. The AAC Chair also addressed the forty-sixth session of the Board. In December, the AAC Chair attended the meeting of the United Nations Oversight Committees held in New York.

18. Based on the AAC's advice, a revised EIO Charter was issued on 26 March 2019 in DGB/2019/07 and is brought to the attention of the Board in IDB.47/CRP.5. As suggested by the AAC in its report IDB.47/21, paragraph 10, and expressed in paragraph 68 of the Charter, EIO's independence should be further strengthened, inter alia, by submitting the next revision of the Charter for consideration and approval by the Board.

19. The external assessment of the internal audit function, which is mandatory every five years according to the IIA Standards, was last performed in 2014. Therefore, EIO/IOD initiated the next external quality validation based on a self-assessment in November 2018. The validation was completed in March 2019 with the highest possible rating as "Generally Conforms" with the International Standards for the

Professional Practice of Internal Auditing, as communicated in information note No. 22 of 28 March 2019.

VI. Outlook

20. EIO will continue its efforts to fulfil its internal oversight function mandate and continuously improve its ability to provide services that lead to enhancing UNIDO's governance, oversight, management decision-making and accountability. The audit workplan 2019 includes engagements on business continuity planning, IT security, accountability to and management of donor expectations, as well as two country office audits.

21. As mentioned before by the External Auditor, the AAC and the JIU, the resource situation continues to present a scope limitation. Apart from the P-2 position most recently filled, no further significant resource increase is foreseen. Therefore, the internal oversight function is not in a position to fully cover through its workplan all high-risk and high-priority business activities comprehensively.

22. As ever, the impact of internal oversight, as an effective independent and objective function assisting the Organization in achieving its goals, depends ultimately on the continuous support received from UNIDO's senior management and its Member States.

VII. Action required of the Board

23. The Board may wish to take note of the information provided in the present document.
