



Industrial Development Board

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Item 12 of the provisional agenda

UNIDO Independent Audit Advisory Committee

Report of the Audit Advisory Committee

Management response

The present document contains the management response to the report of the Audit Advisory Committee (AAC) in document (IDB.47/21), in line with decision IDB.44/Dec.4, and paragraph 24 of the terms of reference contained in the decision.

1. Management took note of the advice provided by the AAC in its report to the Board (IDB.47/21) and appreciates the significant value it provides to further enhance UNIDO's governance and oversight functions. Management looks forward to cooperating further with the AAC.

I. Implementation of the AAC work programme

2. Management notes the important achievements of the AAC in 2018, particularly in the priority areas of its workplan and in the advice provided concerning the oversight function to:

(a) Accelerate the implementation of audit recommendations by the External Auditor, internal audit, and the Joint Inspection Unit (JIU) by analysing and prioritizing internal audit observations and triangulating them against JIU and External Auditor recommendations, in order to focus on areas of high importance, risk and impact, and agree on a reduced number of synthesized and agreed management actions plans;

(b) Increase the alignment of the internal audit work programme with UNIDO's business objectives, strategies and high risks, by adopting a new approach for an updated risk assessment methodology, and a more strategic work programme, which is coordinated with other assurance providers;

(c) Further strengthen UNIDO's evaluation and internal oversight functions, and update the Charter for the Office of Evaluation and Internal Oversight (EIO), in

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line with best practice and the standards of the Institute of the Internal Auditors (IIA), and the United Nations Evaluation Group (UNEG) norms and standards as adopted in the UNIDO Evaluation Policy.

3. Management confirms its commitment to further support and follow up on these achievements.

4. As regards the outstanding issues reflected by the AAC in its report, management will pay special attention to the implementation of these, in full coordination with the AAC and exploring further innovative approaches, in particular by:

(a) Improving internal audit coverage of high-risk business activities, while recognizing the limited resources allocated to this function;

(b) Further strengthening the evaluation and internal oversight functions' independence through the AAC's cooperation with management and by submitting corresponding recommendations to the Board for its consideration;

(c) Building on the AAC's advice towards an integrated EIO strategy, with a view to realizing the benefits of the organizational integration of the internal audit, investigation, and evaluation functions, in terms of synergies and complementarity.

II. Other areas for consideration by the AAC

5. Management will be paying further attention to enterprise risk management (ERM) and explore feasible options for the establishment of an effective ERM function.

6. Management welcomes the review of the terms of reference of the AAC, in order to align it with the recent integration of the internal audit, investigation, and evaluation functions. The expansion of the AAC's scope to cover all three functions is recognized as important.

III. AAC budget

7. As a confirmation of the commitment to the AAC's role and value, the Director General's proposal on the programme and budgets for 2020–2021 included an increase of the AAC budget to allow for two annual in-person meetings at UNIDO Headquarters, thereby supporting a more effective and timely dialogue between the AAC, the Secretariat and the Board.
