



## SECRETARIAT

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Distribution: All personnel at Headquarters,  
established offices and Permanent Missions

### **DIRECTOR GENERAL'S BULLETIN**

#### **Internal Audit Policy**

1. The purpose of this Director General's bulletin is to promulgate the UNIDO Internal Audit Policy as a supplementary policy under the framework of the Charter of the Office of Evaluation and Internal Oversight (EIO), which was approved by the Industrial Development Board at its forty-eighth session in decision IDB.48/Dec.10 and subsequently promulgated in DGB/2020/11 of 11 December 2020.
2. The Internal Audit Policy is complemented by the Internal Audit Manual and other documents issued by the Director of EIO as needed.
3. This bulletin shall enter into force with immediate effect.



**UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION**

**INTERNAL AUDIT POLICY**

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## I. Objective of the Policy

1. As a supplementary policy under the Charter of the Office of Evaluation and Internal Oversight (DGB/2020/11) (the “Charter”), the objective of this Internal Audit Policy is to further outline the nature and scope of the internal audit function; its key services, processes, outputs, roles and responsibilities; as well as the applicable methodological principles and quality assurance measures.

## II. Introduction

2. The Office of Evaluation and Internal Oversight (ODG/EIO) (the “Office”), which is organizationally located within the Office of the Director General, is responsible for the performance and operation of the evaluation, internal audit and investigation functions of UNIDO, in accordance with the terms of its Charter.
3. The internal audit function is one of the core oversight functions under the responsibility of the Director of the Office of Evaluation and Internal Oversight (the “Director of the Office” or “Director”).
4. In order to discharge its mandate, the Office is composed of two divisions: the Independent Evaluation Division (EIO/IED), and the Internal Oversight Division (EIO/IOD). The internal audit function is carried out by the Director of the Office and the Internal Oversight Division.

## III. Internal Audit Function in UNIDO

### Nature and scope of the function

5. Internal auditing is an independent, objective assurance and advisory activity designed to add value to the Organization’s operations and its risk management, internal control and governance processes. The function assists the Organization in accomplishing its objectives by bringing a systematic, disciplined and evidence-based approach to evaluate such operations and processes and to help improve their efficiency and effectiveness.
6. The internal audit function shall provide both **assurance services** and **advisory services**.
7. **Assurance services** may be provided through two main products: assurance engagements and assurance reviews. Assurance engagements are generally performed on mature processes of the Organization and provide an overall conclusion on the objectives of the engagement, as well as findings. Assurance reviews generally provide assurance on early implementation of new Secretariat processes, and inputs for course corrections before processes are fully established. In both cases, action plans are agreed with management and monitored.
8. **Advisory services** may be provided in the form of structured advisory reviews, which furnish non-binding advice relating to the Secretariat’s governance, control and risk management processes, typically when such processes are in the stage of design or early implementation. Advisory services may also be provided through ad-hoc reviews of agreements, policies or procedures, or by serving as an observer on committees, task forces and/or working groups. Advisory services are usually demand-driven, i.e. requested by management. However, the Office may proactively offer advisory services where appropriate. Advisory services seek to provide advice and recommendations to the Director General, senior management and/or managers responsible for business processes.

If action plans are agreed with management, they are monitored in the same way as those agreed within an assurance engagement.

9. All processes and operations of UNIDO, at its Headquarters in Vienna, at its offices, and in countries that are recipients of technical assistance, shall fall within the scope of the internal audit function.

### **Reporting lines**

10. The Director of the Office shall be accountable to the Director General for the overall functioning and performance of the internal audit function. Staff assigned to the Independent Oversight Division carrying out internal audit activities (“internal audit personnel”) shall be accountable to the Chief, EIO/IOD and to the Director.<sup>1</sup> The Chief, EIO/IOD shall be accountable to the Director.
11. The Director of the Office shall submit an annual report on the activities of the Office to the Industrial Development Board, in accordance with the provisions of the Charter. Each report shall include an overview of the key activities of the Office and of the reports produced by the Office, the overall status of implementation of recommendations and management action plans relating to the evaluation and internal oversight functions, and the outlook of the Office for the next year. The report shall also contain a statement by the Director to confirm the independence of the Office and declare whether any situation has occurred representing an impairment of its objectivity or of its functional independence.

### **Professional standards**

12. The Director of the Office shall ensure that the internal audit function adheres to the International Professional Practice Framework (IPPF) of the Institute of Internal Auditors (IIA), comprising the *Core Principles of Internal Auditing*, *International Standards for the Professional Practice of Internal Auditing*, *Code of Ethics*, and *Definition of Internal Auditing*.

### **Internal audit personnel: integrity and professional conduct**

13. Internal audit personnel shall at all times exhibit the highest standards of integrity and shall be above suspicion and reproach. Such integrity establishes trust in, and provides the basis for reliance on, their work and judgment.
14. Auditors shall: comply with the Standards of Conduct for the International Civil Service, the Code of Ethical Conduct of UNIDO and the *Code of Ethics* of the IIA; perform their work with honesty, diligence, and responsibility; observe the regulations, rules and policies of UNIDO, and make any disclosures required by these and the profession; not knowingly be a party to any illegal or illicit activity, or engage in acts that are discreditable to the profession of internal audit or to the Organization; and respect and contribute to the stated objectives of the Organization.
15. In order to maintain the quality of internal audit services, the Director of the Office shall ensure that suitable criteria for the education, certification, knowledge, skills and experience of candidates are established when filling internal audit positions. The Director, with the support of the Chief, EIO/IOD, shall also ensure that internal audit personnel

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<sup>1</sup> In this Policy, the terms “staff” and “personnel” have the same meaning as in Charter.

collectively possess the knowledge, skills and experience necessary to perform their responsibilities and that they maintain their relevant professional certifications.

### **Confidentiality**

16. Auditors and other internal audit personnel shall:

- (a) Respect the value and ownership of information, material and documents they receive or obtain in the course of their duties and responsibilities, and refrain from disclosing any such information, material or documents without appropriate authorization unless there is a legal or professional obligation for them to do so;
- (b) Refrain from discussing any matters pertaining to the assurance or advisory services performed by the Office, other than in an official manner;
- (c) Take adequate measures to prevent the unauthorized disclosure or release, in any medium, of confidential information, material and documents obtained in the course of their duties and responsibilities, and to secure such information, material, and documents from theft, reproduction, or casual observation;
- (d) Refrain from using any such information, material or documents for any personal gain or in any manner that would be contrary to any regulation, rule or policy of UNIDO, or detrimental to the stated objectives of the Organization.

### **Conflict of interest and objectivity**

17. To achieve full compliance with the principles of independence and objectivity in the Charter of the Office, and to avoid any conflict of interest or the appearance of any conflict of interest on the part of internal audit personnel, the following requirements shall be observed:

- (a) All internal audit personnel must sign, at least annually, a declaration of independence and management of conflicts of interest.
- (b) In addition, any internal audit personnel assigned to perform an assurance or advisory engagement must sign a declaration of independence and absence (or disclosure) of conflicts of interest prior to commencing the engagement.<sup>2</sup>
- (c) Where a potential conflict of interest is identified, the Director of the Office, in consultation with the Chief, EIO/IOD, shall assess the significance thereof and institute appropriate safeguards, which may include changing the personnel assigned to the engagement, or performing supplementary reviews of the working papers and reports relating to the engagement.
- (d) Internal audit personnel shall under no circumstances solicit or accept any gifts or favours or any form of consideration in connection with their duties and responsibilities.

### **Responsibilities of UNIDO personnel**

18. All UNIDO personnel must fully cooperate with the Office throughout its assurance or advisory engagements by making themselves available for meetings and by providing complete and accurate information in response to questions and requests made to them by the Office or the audit team.

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<sup>2</sup> The term “engagement” in this and subsequent paragraphs of the Policy means any engagement or review provided for in paragraphs 7 and 8 above.

19. Upon request by the Office, personnel must cooperate with, and provide any information in their possession necessary to assist, the function in conducting its annual risk assessment and in preparing its work plan.
20. During the planning phase for an assurance or advisory engagement, internal audit clients should provide relevant information to assist the audit team to define the audit schedule. Any limits on the availability of personnel should, where feasible, be disclosed and discussed with the audit team in advance.
21. Audit clients shall under no circumstances obstruct an engagement, whether actively or passively. Obstruction includes providing incomplete information, material or documentation; unjustified prolongation of the engagement; unjustified postponement of interviews and other meetings; or any other activity constituting an unwarranted obstruction.
22. Audit clients are expected to provide timely comments on draft observations and timely cooperation with the audit team in the process of validating its findings, and, where relevant, to propose management action plans to address findings resulting from an engagement.
23. UNIDO personnel shall refrain from any action or inaction that may be interpreted as intimidating to an audit team or any member of an audit team.

#### **IV. Approach and Methodology**

##### **Annual risk assessment and work planning process**

24. The Office shall develop a strategy, which shall set out the mission and vision for the internal audit, investigation, and evaluation functions, and which shall provide a framework for assessing the performance of these functions. The strategy, which shall also provide the framework for the biennial work planning process for the internal audit function, shall be reviewed every four years at least.
25. The internal audit work plan shall consider the Organization's strategic goals and be aligned with UNIDO's medium-term programme framework. The work plan, which shall be based on an annual risk assessment, lists the priorities for the planning period with respect to assurance and advisory engagements. Priorities in the work plan shall be based on risks and trends or developments that, in the opinion of the Director of the Office, may adversely affect the achievements of the Organization's strategic objectives.

##### **Synergies with evaluation function**

26. Notwithstanding the different roles and the different nature of the three functions of EIO (internal audit, evaluation, and investigation), there are commonalities and opportunities for synergies, particularly between the internal audit and evaluation functions. The work plans of the internal audit function and the evaluation function shall generally be reconciled to supplement each other and to avoid any unnecessary duplication or overlap. Relevant findings from past internal audit and evaluation engagements may feed into the planning of engagements for both functions. Joint and complementary engagements may also be undertaken, where appropriate.

### **Engagement-level processes**

27. The internal audit function shall follow a participatory approach, which shall be built on establishing trusted relationships between the Office and its clients. Internal audit personnel shall seek to communicate with clients throughout the engagement, in order to ensure transparency and to share common understandings.
28. Each assurance or advisory engagement generally goes through four main stages: planning, fieldwork, reporting, and follow-up. Findings and lessons learned from each stage may be used as inputs into the Office's strategic reviews, as well as in the annual risk assessment and in the work planning process.
29. As a result of each assurance engagement, one or more management action plans shall be agreed between the Office and the responsible manager(s). Each management action plan (MAP) should specify appropriate measures to mitigate against the detected risks and/or to improve the process or processes in question. Each MAP should normally include specific action(s) to be taken within a specific deadline by specific personnel responsible for a specific business process. In the case of advisory engagements, a MAP is not mandatory but may also be agreed with management, where appropriate.
30. Once agreed between the Office and the responsible manager(s), management action plans are binding. It is the responsibility of managers who have agreed to a MAP to implement the MAP as soon as possible and within the specified deadline. Any amendment to a MAP is also subject to agreement between the Office and the responsible manager(s).
31. A Senior Level Focal Point (SLFP), appointed by the Executive Board, supports, monitors and coordinates the implementation of the management action plans. The Office shall support the work of the SLFP through regular coordination meetings on plans requiring senior management's attention. The role and responsibilities of the SLFP are set out in the UNIDO Internal Control Framework.<sup>3</sup>
32. The process of following up on internal audit activities shall be established and managed by the Office. Engagements shall generally be followed through with an assessment of the status of implementation of management action plans as agreed to by management. While management retains the responsibility to implement and monitor management action plans, the Office shall ensure that such plans are properly carried out and that the underlying risks are mitigated in time.
33. Where no MAP is proposed or agreed by management to address a finding, or where management later decides not to implement an already agreed MAP (i.e., the audit client is willing to accept the risk), the Office may escalate the issue to the Executive Board. Further, the Director of the Office may inform the Independent Oversight Advisory Committee and the Industrial Development Board of the acceptance of high or critical residual risk in such a case, if deemed necessary.

### **Contribution to organizational learning**

34. Through identifying areas for improvement and agreeing to management action plans, the internal audit function seeks to contribute not only to the efficiency and effectiveness of reviewed processes, but also to collective organizational learning. The improvement potential observed in one engagement may result in Organization-wide improvements,

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<sup>3</sup> UNIDO Internal Control Framework (DGB/2021/02 of 25 January 2021), paragraph 49.

through constructive discussion and actions which go beyond the remediation of the audit finding.

35. The internal audit function supports the organizational learning process by offering advice on topics such as governance, risk management and internal controls, and by contributing to the improvement of existing processes and to the implementation and refinement of new ones.

## **V. Quality Assurance**

### **Quality assurance and improvement programme**

36. The Office shall conduct a quality assurance and improvement programme (QAIP) to assess the quality of internal audit activities, and to demonstrate that the function: (a) performs its work in conformance with the provisions of the Charter, this Internal Audit Policy, and the IPPF; (b) operates in an effective and efficient manner; and (c) is perceived by stakeholders as adding value to and improving the Organization's operations and its governance, risk management and control processes.
37. The QAIP shall include the following:
  - (a) High standards of quality built into all internal auditing activities (e.g. through continuous monitoring of activities, planning and supervision of engagements, standard working practices, working paper and signing off procedures, and reviewing of reports); and
  - (b) Periodic self-assessments undertaken by internal audit personnel, normally every two years; and
  - (c) External quality assessments or, alternatively, self-assessments with external validation performed by an independent assessor, normally every five years.
38. The results of both internal and external quality assessments shall be presented to the Independent Oversight Advisory Committee and the Director General. The implementation of recommendations of a particular QAIP exercise shall be assessed in the subsequent QAIP exercise and the results thereof presented to the Committee and Director General.
39. Further details of the quality assurance steps built into the internal audit process, as well as of the periodic quality assessments, are described in the Internal Audit Manual.

## **VI. Interpretation, Review and Amendment**

40. This Policy shall be interpreted in conformity with the provisions of the Charter.
41. This Policy shall be reviewed by the Director of the Office, in consultation with the Independent Oversight Advisory Committee, normally at least once every five years.