

## Governing Body

335th Session, Geneva, 14–28 March 2019

GB.335/PFA/6

**Programme, Financial and Administrative Section**  
*Audit and Oversight Segment*

**PFA**

**Date:** 25 February 2019

**Original:** English

### SIXTH ITEM ON THE AGENDA

## Report of the Independent Oversight Advisory Committee

#### Purpose of the document

This paper transmits the 2019 report of the Independent Oversight Advisory Committee, for debate and guidance.

**Relevant strategic objective:** Not applicable.

**Main relevant outcome/cross-cutting policy driver:** Enabling outcome B: Effective and efficient governance of the Organization.

**Policy implications:** None.

**Legal implications:** None.

**Financial implications:** None.

**Follow-up action required:** The Office will report to the Committee on follow-up to the recommendations contained in the attached report.

**Author unit:** Independent Oversight Advisory Committee (IOAC).

**Related documents:** GB.316/PFA/6/1; GB.316/PV(&Corr.); GB.331/PFA/7; GB.331/PV; GB.334/PFA/5; GB.334/PFA/PV.



1. In accordance with its terms of reference, <sup>1</sup> the Independent Oversight Advisory Committee (IOAC) met in Geneva from 24 to 25 May 2018, from 24 to 26 September 2018, and from 21 to 23 January 2019.
2. The IOAC comprised the following members until 31 December 2018, who met in May and September 2018:
  - Ms Bushra Naz MALIK (Pakistan/Canada), Chairperson;
  - Mr Luis CHINCHILLA (Peru);
  - Mr Frank HARNISCHFEGER (Germany);
  - Mr N.R. RAYALU (India).
3. At its 334th Session (October–November 2018), the Governing Body appointed three new members for the three-year term commencing 1 January 2019. <sup>2</sup> The new membership, comprised of the following members, met in January 2019:
  - Ms Malika AIT-MOHAMED PARENT (France/Switzerland);
  - Mr Frank HARNISCHFEGER (Germany);
  - Mr Verasak LIENGSRIRIWAT (Thailand);
  - Ms Marian McMAHON (Canada);
  - Mr N.R. RAYALU (India).
4. The Director-General transmits herewith the annual report of the Committee to the Governing Body for its consideration.

<sup>1</sup> Approved by the Governing Body at its 316th Session in November 2012 ([GB.316/PFA/6/1](#); [GB.316/PV\(&Corr.\)](#), paras 650 and 657) and revised at its 331st Session (October–November 2017) ([GB.331/PFA/7](#); [GB.331/PV](#), para. 813).

<sup>2</sup> [GB.334/PFA/5](#); [GB.334/PFA/PV](#), para. 89.



## Appendix

### Eleventh annual report of the Independent Oversight Advisory Committee

1. The Independent Oversight Advisory Committee (IOAC) is pleased to present its eleventh report on its work from May 2018 to January 2019. All meetings were quorate and all members affirmed and signed a declaration that they had no conflict of interest.
2. The IOAC has continued to follow a standing agenda based on the terms of reference that guide its work in order to ensure that all aspects of its responsibilities remain covered fully and comprehensively. During its meetings, the Committee met with senior Office officials, including the Director-General, the Deputy Director-General for Management and Reform, the Treasurer and Financial Comptroller, the Chief Internal Auditor, the Director of the Strategic Programming and Management Department (PROGRAM), the Director of the Human Resources Development Department (HRD), the Director of the Information and Technology Management Department (INFOTEC), the Director of Partnerships and Field Support Department (PARDEV), and the Senior Risk Officer, in order to follow up on matters from its previous sessions and to receive updated information on items within its mandate, as well as to broaden its understanding of the ILO's operations. In addition, the Committee met with representatives of the External Auditor.
3. The Committee appreciated the opportunity to meet with members of the Governing Body in September 2018 for an informal briefing. The occasion provided an opportunity to discuss the Committee's work and observations.
4. At the first meeting in its new composition, the Committee decided to update some of its operating principles going forward. Effective for 2019, the Committee decided to rotate the chairpersonship annually and nominated Mr Frank Harnischfeger as its Chairperson for the current year. In preparation of the rotation, it also nominated Ms Marian McMahon as Vice-Chairperson.
5. In light of the changing composition of the Committee the current report relied on the observations and findings of its former and new composition.

### ***Financial reporting, audited financial statements, disclosure practices and external auditors' reports***

6. The IOAC reviewed the quality and level of financial reporting including the annual financial statements, the financial report and the External Auditor's opinion and long-form report. As reported orally to the Governing Body in May 2018, we reviewed the financial statements in detail and received satisfactory replies from both management and the External Auditor. We were pleased to note that management issued their first Statement of Internal Control as part of the financial reporting process. We reviewed the process related to the development of this statement and found it to be robust.
7. Based on our discussions with the External Auditor and review of their report, we were able to advise the Governing Body that the external audit plan was executed to address the risks identified in the plan. We were also pleased to note that the Office achieved an unmodified audit opinion of the 2017 financial statements, and that, in the opinion of the External Auditor, they were presented fairly, in all material respects, in accordance with International Public Sector Accounting Standards (IPSAS).
8. The implementation of IPSAS has highlighted the importance of the consolidated statement of financial position, from which the long-term financial sustainability of the ILO can be judged. We continued to note that the impact of the unfunded After-Service Health Insurance

(ASHI) liability on the net asset position remained significant and had eroded the net assets during 2017 to the equivalent of one year's total revenue.

9. The IOAC was also satisfied with the Office's responses to the recommendations made by the External Auditor. With respect to past recommendations of the External Auditor, we note that there was room to accelerate the implementation of respective measures and we continued to encourage the Office to look into this.

### **Accounting policies and standards**

10. The Committee was briefed on the new accounting standards and noted that those that became effective in 2017 had had no impact on the ILO's financial statements. We will continue to receive regular briefings from the Office about ongoing changes to accounting standards and their impact on the financial statements.

### **Information Technology**

11. The Committee was satisfied with the Information Technology (IT) Strategy as presented to us by the Office as well as all the items achieved to date. However, the speed of implementation could be improved to keep pace with external changes. The Office strategy for centralizing various applications under INFOTEC was sensible and should be accelerated where possible.
12. The Committee received a briefing about the Office's measures on cybersecurity management and was satisfied with the progress being made. It encouraged the Office to continue its efforts in this area. The Committee noted that one key aspect of the ILO's vulnerability was the fragmented and outdated systems landscape.
13. Noting that a number of project offices were not connected to the ILO centralized IT framework, the Committee requested that a strategic approach be developed to ensure future inclusion of the project locations into the framework, including a sustainable solution for the financial implications in the project budget, considering long-term costs and benefits to the Organization.
14. The Committee was also informed of and welcomes the move of the Archives and Records Management Services Unit to INFOTEC. This change is in line with best practices in technology management and the need to integrate an archives and records strategy with an ILO-wide document management approach. The Committee is encouraged by the integration and digitalization plans which would address the current situation which is a risk to the effectiveness and efficiency of the Organization.

#### **Recommendation 1 (2019)**

***The Committee requests a strategic approach be developed to ensure the future inclusion of the project locations into the ILO centralized IT framework, including a sustainable solution to the financial implications.***

### **Risk management**

15. The Committee reviewed the draft Strategic Risk Register for 2020–21 and took note of the adjustments made, including the new risks considered, and was satisfied with the changes made. It was briefed about the results of the update of risk registers conducted in 2018 and was satisfied with the 100 per cent compliance rate. It encouraged the Office to keep Enterprise Risk Management (ERM) as a living exercise.
16. The Committee was encouraged to learn that the risk management function sees as one of its responsibilities to not only evaluate but also to ensure the value of the risk management processes it implements. This should reduce the risk of this function being perceived as a

bureaucratic exercise that is not integrated in the actual management of enterprise risk in practice.

17. In the area of business continuity management, the Committee felt that the distinction between business continuity management and crisis management needed to be further clarified. In light of the different risk profiles of external offices and headquarters, the proposed approach focusing on a people-oriented crisis response capability in the field while emphasizing the business continuity response in headquarters seemed appropriate. We supported the regular simulation exercises planned for the external offices.

### **Internal audit**

18. The Committee was pleased with the external quality review results of the Office of Internal Audit and Oversight's (IAO) compliance with the International Professional Practices Framework of the Institute of Internal Auditors and would like to congratulate the Office for receiving a "Generally Conforms" rating.
19. With regard to the performance of the internal audit function, we were satisfied with the risk-based audit plan and the underlying risk analysis. Although the IAO is behind its plan in completing all identified audits for the 2018–19 biennium, we were assured that all would be completed within the timeframe indicated.
20. The Committee also noted that additional funding was granted by the Director-General when resource gaps were identified by the IAO during the year.
21. In the area of investigations, the Committee continued to be concerned about the increasing number of investigation cases that needed to be addressed. While the Committee was thoroughly informed about the nature of the investigations, it encouraged management to analyse the root cause(s) of the increase in order to more effectively mitigate any recurring risks. We also noted management's proposal to permanently increase resources in the IAO to alleviate the backlog in investigations and we support this initiative.

**Recommendation 2 (2019)**

***The Committee encourages the IAO to address the backlog of the investigation of allegations as planned in 2019 as the completion remains critical for the effective risk management of the ILO.***

### **Business Process Review**

22. The Committee was informed of and pleased with the progress made on the Business Process Review (BPR). In particular, it wishes to commend the Office on the quantification and implementation tracking of the measures, both of which were presented to the Committee at its January 2019 meeting. The Committee also recognized the achievements around the transfer of resources from administrative activities to the ILO's core work areas.
23. The Committee also noted the success in building an in-house competence around this topic and encouraged the Office to apply these resources to accelerate the work across all areas in order to harness the opportunities around process redesign and technological change.
24. In this context the Committee also encourages the Governing Body to evaluate the Office's investments in IT in order to avoid a further falling behind in this area.

### **Staff Health Insurance Fund**

25. In the last two years the Committee was periodically updated on the developments around the Staff Health Insurance Fund (SHIF) operations. While we noted that an extensive set of measures had been developed in relation to the detection and management of fraudulent claims, we continued to question whether the Office has effectively addressed all aspects of the operations, for example:

- There had still not been a decision on the future organizational model to deliver these services.
- Resources were now being invested into the digitization of the processes and this investment may be lost if an alternative approach to managing the fund was deemed the best solution for the long term.
- The implementation of the defined measures remains behind plan.

**Recommendation 3 (2019)**

*The IOAC recommends a swift decision on the topic of the organizational model to manage the fund in order to accelerate the implementation of a cost-effective solution. Due consideration should be given to economies of scale, organizational capabilities, focus on core competencies, fraud detection capabilities available in large-scale applications in the market and best practices applied by other organizations in a similar context.*

### **After-Service Health Insurance**

26. The Committee wishes to comment on the funding of the ASHI. We continue to believe that the current pay-as-you-go approach is neither sustainable nor defensible in light of changes that the membership of the ILO may or may not face over time. As noted in our comments under financial reporting, the growth in the unfunded liability had eroded the net assets of the Office by the equivalent of one year's gross revenue. We believe that staff needs assurance that there are sufficient reserves in the ILO's balance sheet to cover these future liabilities.

### **Self-assessment**

27. As per best practice, the Committee conducted a self-assessment in September 2018 pertaining to the three-year mandate ending in 2018 and identified a number of areas for improvement in the operations of the Committee:
- The first area was around the induction plan developed for the new members of the Committee. We felt that the process needed improvement in order to accelerate the onboarding and the time-to-productivity.
  - Second area was around the mandate of the Committee. Although our terms of reference are comprehensive and have been updated regularly, we suggested that in the next update cycle consideration should be given to include in the Committee's mandate the oversight of the evaluation function.
  - Thirdly, we appreciated that one of our meetings in the mandate was held in a region. We hoped that this practice would be continued as it provided an opportunity for enhancing the Committee's understanding of and perspective on the operations of the ILO.
28. In addition to these learnings, the Committee discussed its mode of operating with the three newly appointed members and decided to implement some changes immediately. These were mainly focused on improved record-keeping of Committee deliberations and increasing the focus on issues and challenges (as opposed to broader technical briefings) in the meetings with the relevant units.

### **Update of past recommendations**

29. In its report to the Governing Body in March 2018, the Committee issued four recommendations. The Committee was satisfied with the progress regarding the recommendations on investigation, risk management and information technology.
30. Concerning the recommendation on Human Resources Skills Development:



Recommendation 4 (2018): The Committee encourages management to consider including in employee performance appraisals, incentives to encourage them to build futurist skill sets and thus take charge of their career and become a positive force for change management

31. The Office response was the following:

The Office supports life-long learning to enable staff to build the skill sets needed for success; not just for their current role, but also for future roles and responsibilities. Within the Performance Management Framework, it is mandatory for all staff to add at least one development objective. From 2019 this has been reinforced so that the appraisal form cannot be approved without at least one development objective. Considering the annual performance appraisal cycle, this means that all staff members on a yearly basis will work on at least one development objective, thus ensuring that staff take ownership of their learning with the full support from their managers. To support all staff worldwide the Office has a wide range of on-line learning opportunities in areas spanning from IT to project management and change management. In addition, with an emphasis on building skills for the future, the Office has refocused its management and leadership development programme to include elements related to continuous improvement tools, change management and innovation.

32. While the Committee recognized that our written recommendation might have been too generally worded, our discussions around this issue were clearly focused on training and redeploying staff as a result of the business process redesign. As a result, we considered the Office's response too general in its nature. While our enquiries with the Director of HRD revealed quite a few activities in the area, we remained concerned that the messaging around this topic was not comprehensive enough to ensure that efficiencies identified by the business process redesign could be realized.

### **2019 Work Plan**

33. Looking ahead to the Committee's work in 2019, the preliminary focus will be on the following areas of the mandate:

- **Financial statements and external audit:** issues arising from the audited financial statement and the reports from the External Auditor.
- **Internal audit:** the scope, plan, resources, performance of the internal audit and investigations function as well as the appropriateness of the independence of this function. We will also be monitoring how the investigations backlog is being addressed.
- **Risk management and internal controls:** the effectiveness of the ILO's internal control systems, including the Office's risk management and internal governance practices.
- **Compliance and probity:** the systems established by the ILO to maintain and promote compliance with laws, regulations, policies and high standards of integrity and ethical conduct to prevent conflicts of interest.

34. The Committee also wishes to emphasize that it stands ready to perform any other duties consistent with the mandate as requested by the Governing Body.

Geneva, 25 February 2019

*(Signed)* Mr Frank Harnischfeger  
Chairperson