



Governing Body

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Programme, Financial and Administrative Section
Audit and Oversight Segment

PFA

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SEVENTH ITEM ON THE AGENDA

Independent Oversight Advisory Committee (IOAC): Annual report

Purpose of the document

This paper transmits the 2015 report of the Independent Oversight Advisory Committee, for debate and guidance.

Relevant strategic objective: Not applicable.

Policy implications: None.

Legal implications: None.

Financial implications: None.

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

Author unit: Independent Oversight Advisory Committee (IOAC).

Related documents: GB.316/PFA/6/1; GB.316/PV(&Corr.) para. 650; GB.320/PFA/11.

1. In accordance with its terms of reference,¹ the Independent Oversight Advisory Committee (IOAC) met in Geneva from 26 to 27 May 2014, from 23 to 25 September 2014 and from 27 to 29 January 2015.
2. The members of the IOAC are:
 - Mr Luis Guillermo CHINCHILLA (Peru)
 - Ms Eileen Skevin FUSCO (United States)
 - Ms Bushra Naz MALIK (Pakistan)
 - Ms Hilary WILD (United Kingdom)
 - Ms Jeya WILSON (South Africa)
3. The Director-General herewith transmits the report of the Committee to the Governing Body for its consideration.

¹ GB.316/PFA/6/1; GB.316/PV(& Corr.), para. 650.

Appendix

Report of the Independent Oversight Advisory Committee (Seventh annual report)

1. The Independent Oversight Advisory Committee (IOAC) is pleased to present its report on the work of the Committee from May 2014 to January 2015 during which time the Committee met three times in Geneva from 26 to 27 May 2014, from 23 to 25 September 2014 and from 27 to 29 January 2015. All meetings were quorate and all members affirmed that their signed declaration that they had no conflict of interest remained valid. The Committee much appreciated the opportunity to meet with the Governing Body in September for an informal briefing.
2. The Committee has followed a standing agenda based upon the terms of reference that guide its work so as to ensure that all aspects of its responsibilities are covered comprehensively.
3. During the meetings, the Committee met with senior officials of the Office, including the Director-General, the Deputy Director-General for Management and Reform (DDG/MR), the Treasurer and Financial Comptroller, the Director of the Strategic Programming and Management Department (PROGRAM), the Director of the Human Resources Development Department (HRD), the Chief Internal Auditor (CIA), the Director of the Information and Technology Management Department (INFOTEC), the Senior Risk Officer (SRO) and the Director of the International Training Centre (ITC Turin) to follow up on matters from its previous sessions and to receive information on items within the Committee's mandate.
4. The Committee met with representatives of the External Auditor, the Auditor General of Canada at its meetings in May and September 2014. During the Committee's September session, it also met informally with Members of the Governing Body to provide an opportunity for discussing the work of the Committee.

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

5. The Committee reviewed the quality and the level of financial reporting, in particular all the documents that make up the financial reporting process: the report, the statements and the External Auditor's report and opinion. As reported to the Governing Body in June 2014, the Committee had reviewed the financial statements for 2013 in a meeting with the External Auditor and senior finance staff of the Office. This provided the Committee with the opportunity to confirm to the Governing Body that the independence of the External Auditor had not been compromised. The Committee advised the Governing Body that it should feel confident to recommend that the Conference adopt the financial report and audited consolidated financial statements for the year ended 31 December 2013, noting the Report of the External Auditor.
6. The Committee's review focused on the presentation of the figures, notes and complementary analytical reporting by the Office. The Committee noted that while the Office has successfully implemented International Public Sector Accounting Standards (IPSAS) and produced audited financial statements that have a clean audit opinion, the presentation of detailed information required under IPSAS can make the statements less accessible to non-financial people. Thus, as recommended by the Committee, the Office has carried out a thorough review to determine where improvements in presentation can be made. The External Auditor was consulted in this process. The Committee will report to the Governing Body on the outcome of this work in June 2015 when we report on the financial report and consolidated audited financial statements for 2014.

7. The Committee reviewed the presentation of the After Service Health Insurance liabilities and discussed the issue of the unfunded liability. While the Committee recognizes that the level of the unfunded liability changes as the effect of up to date actuarial assumptions is incorporated into the calculations, it reiterates its advice that this liability should be funded as the ILO's mandate concerns the promotion of high standards of employment conditions. The Committee notes that the Office is taking some useful steps to address the unfunded liability, inter alia, ensuring that extra-budgetary sources of funds bear the appropriate level of contribution to the fund for the staff employed on projects. The results of an actuarial study were reviewed by the Committee at its meeting in May 2014, and while the level of the unfunded liability had reduced at 31 December 2013, the Committee continues to advise that a plan be developed to fully fund the liability over an appropriate time period and that the Office, together with the Governing Body continue to implement measures to achieve this goal. The Committee will report further on this in June 2015.
8. The Committee reviewed the process undertaken by the Office to develop accounting policies for the implementation of four new IPSAS standards, of which two are applicable to the ILO, IPSAS 29 and 30, both of which relate to financial instruments. The Committee advised that the process was appropriately detailed, and carried out in a collaborative manner with the External Auditor. The IOAC posed a number of questions to both the Office and the External Auditor, and based on our analysis and the answers to these questions we were able to advise you that the implementation of these two new IPSAS standards was appropriate for the ILO.

Recommendation 1 (2015): That the Office, in consultation with the Governing Body, continue to explore and implement measures that are designed to fully fund the After Service Health Insurance liability over an appropriate period of time.

Accounting policies and standards

9. In exercising its responsibility to advise the Governing Body and the Director-General on the appropriateness of accounting policies, standards and disclosure practices, the Committee is pleased to report to you that apart from the recommendations above there is nothing that the Committee wishes to bring to your attention.

External audit scope, plan and approach

10. The Committee reviewed the external audit scope, plan and approach to work at its meeting in September.
11. The Committee held a private session with the External Auditor representatives that enabled us to discuss areas of mutual interest and develop our working relationship. This is a valuable mechanism, practised across the UN system, to ensure that if there are any concerns regarding the working relationships between the External Auditor and the Office or the Internal Audit and Oversight Office, these can be raised by both parties in an open and frank manner. We are pleased to report that the working relationship between the Office and the External Auditor appears to be effective and constructive.

External Auditor selection

12. The terms of reference of the IOAC provide for the Governing Body to request the advice of the Committee in relation to the appointment of the External Auditor. Following a request from the Governing Body to provide advice on this matter, at its meeting in May and prior to the September meeting, the Committee developed a process and objective criteria for the technical review and scoring of proposals. In September the Committee carried out a very extensive technical review of all proposals submitted for the External

Audit mandate for the next two biennia. All submissions were assessed against the same criteria, resulting in a conclusion as to the level of technical compliance with the requirements in the bidding documents. As noted in our report last year, the Committee, as a technical, advisory committee, is fully cognizant of the need to avoid the perception of any potential conflicts of interest so that the integrity of the process is maintained. Accordingly, Ms Wild (UK) recused herself from chairing the Committee's deliberations on this as well as from making any assessment of the bid of the UK National Audit Office (NAO). Ms Fusco (USA) acted as chair of the Committee for this process. The Committee submitted a detailed report to the Selection Panel.

Internal audit scope, plan, resources, performance and independence

13. The Committee met with the Chief Internal Auditor, including in a private session, in each of its meetings. The scope, plan and resources were reviewed by the Committee, who found the scope and plan to be well conceived having been prepared on the basis of a thorough risk assessment. The Committee also reviewed the resource requirements to deliver the plan.
14. The Committee has discussed the approach taken to determine a risk based audit plan, which should form the basis for calculation of the resources required to deliver on the plan. While the Committee finds that the IAO has a sound approach to risk analysis and risk based planning, it notes that once the Office risk management framework is fully developed and well embedded in ILO management practices, the IAO will be able to use this as an important element in its own risk based planning. Thus the Committee recommends that the CIA continue to engage, in an advisory capacity, in the development of the risk management framework of the Office.
15. The Committee also held extensive discussions on the resource level of the IAO and thus its capacity to deliver the risk based plan that reflects the needs of the ILO. While the IOAC finds the risk assessment carried out by the IAO to be of a good quality, the Committee is of the view that the IAO is under-resourced to deliver the work indicated by the risk based plan. The Committee recognizes that whenever the CIA has requested additional resources the Director-General has allocated additional resources, the Committee notes that this could in some circumstances create unnecessary pressure on the IAO. The Committee believes that the resource allocation against the approved plan is very tight, it does not allow for any slippage in activity. It may also create pressure on the CIA to postpone audits that have been planned to meet the risk assessment. The Committee recommends that the CIA take a more realistic approach to calculating the level of resources needed to deliver the risk based plans of the IAO, and that if the resources available are inadequate to fund the plan, a re-prioritization is made in close consultation with the Director-General so that he is aware of the impact of his decision on the level of assurance that the IAO can provide to him.
16. As previously noted, while the Committee appreciates the commitment of the Director-General to the value of the IAO, as evidenced by his allocation of additional resources when requested, as well as discussions with the Committee, the Committee recommends that following a more realistic assessment of the resources required for the more effective functioning of the IAO, the Director-General should ensure he allocates resources appropriate to a revised assessment made by the IAO.
17. While the Committee has no concerns regarding the level of independence of the function, it notes that adequate resource availability is one measure of the independence of the internal audit function.

18. Regarding the performance of the internal audit function, the Committee notes that delivery of the 2014–15 plan is progressing well, some adjustments have been made to respond to the emerging need for the IAO to increase its capacity to use the data analytical capacity of IRIS. This is a welcome move, and the Committee supports this investment.
19. The Committee also noted that the incidence of allegations of fraud or other malpractice has increased and that this has imposed an additional work load on the unit. The resource requirements can be hard to predict, as the nature of investigation work is reactive to circumstances and unpredictable in itself. This can present a challenge in determining the appropriate level of resources for the investigation unit. The Committee advises that it is important this function within the IAO is also adequately resourced, as the consequences of delay in carrying out investigations are two-fold. It is harder to carry out an effective investigation, and timely investigation of allegations of fraud or malpractice acts as a deterrent to potential fraudsters.
20. During the next year the Committee will be reviewing in greater depth the processes that support the maintenance of an ethical framework that should pervade all aspects of the Office activities and that support an anti-fraud culture in the Office.
21. The Committee has reviewed the implementation plans for the remaining recommendations arising from the External Quality Assurance Review of the IAO carried out in 2013. Two of these recommendations envisage a role for the IOAC and concern the reporting line of the CIA as well as his/her appointment and termination. The IOAC appreciates that these recommendations reflect good practice, but believes that they are not sufficiently nuanced to reflect the governance relationships in the ILO. The Committee fully supports the intention of the recommendations; to further strengthen the independence of both the IAO and the CIA. Thus the Committee supports the CIA's intention to incorporate the spirit of the recommendations in the revised Internal Audit charter that he is preparing and that will be presented for the advice of the IOAC and subsequent approval of the Governing Body. We will report further to you as may be appropriate.

Recommendation 2 (2015): That the Chief Internal Auditor continues to engage, in an advisory capacity, in the development of the risk management framework of the Office.

Recommendation 3 (2015): That the CIA take a more realistic approach to calculating the level of resources needed to deliver the risk based plans of the IAO.

Recommendation 4 (2015): That following a more realistic assessment of the resources required for the effective functioning of the IAO, the Director-General should ensure that he allocates resources appropriate to the revised assessment made by the IAO.

Risk management and internal controls

22. The Committee was briefed by the Senior Risk Officer on the steps being taken to establish a risk management framework across all aspects of the Office work. In this regard, the Committee notes that the Office approach is based on compliance with international standards such as the COSO² framework and the ISO 31000 framework. The Committee was pleased to see that, in line with its advice, the proposed framework is practical and

² Committee of Sponsoring Organizations, otherwise known as the Treadway Commission.

ILO specific and will be integrated into the management practices of the Office. This will assist compliance and avoid an unnecessary duplication of effort as management of risk is already inherent in a number of aspects of the work of the Office. The Committee notes that further work is required by the Office, and that it will therefore review progress at regular intervals and report further to you on this important area for the sustainability of the ILO.

Recommendation 5 (2015): That the Director-General continue to develop the enterprise risk management framework, and that it is institutionalized within the culture of the Office.

23. As noted in our report for 2014, the governance practices in the Office relating to information technology have undergone a significant improvement with the establishment of an Information Technology Governance Committee (ITGC). In 2014, the IOAC noted that a significant amount of preparatory work had been carried out that would support the effective operation of the ITGC. The Committee has been briefed on the work of the ITGC in 2015, and is pleased to note that it appears to be functioning well and carries out an effective and useful role in the internal governance of the Office. However the Committee notes that not all IT functions are consolidated in INFOTEC, and commends the Office decision to consider whether consolidation might result in a more cost effective use of IT resources throughout the Office.
24. The Committee notes that the incremental approach to the roll-out of IRIS is on track, and that the Office will soon be able to reap the benefits in terms of improved internal control and internal governance through the implementation of IRIS. The benefits that may accrue from an adapted version for smaller offices will take longer to accrue as the detailed cost benefit analysis of this, which should incorporate the results of the Field Operations Review, is not yet complete. The Committee will continue to review progress in this area in its future meetings.
25. The Committee continues to receive a briefing at each of its meetings on the evolution of the Management Reform process and was pleased to hear that the Office considers that the changes brought about under the reform are now being embedded as “business as usual”.
26. In relation to the Administrative Services Review being undertaken, the Committee notes that the Office is striving to find an appropriate balance between service and administration as well as avoiding unnecessary bureaucracy. In this respect the Committee notes that the future model, while reflecting good practices in national administrations, must also incorporate sound internal control and governance processes. The Committee will continue to monitor developments in this process, particularly with respect to the adequacy of the internal control and related governance processes.
27. The Committee notes that the Office will engage an external consultancy to assist with the Administrative Services Review process. The Committee supports the Office view that this can bring an external perspective that will challenge any internal preconceptions, but notes that it is vital that staff are also fully engaged as this will lead to ownership of the end result, thereby ensuring a much higher level of effectiveness of the overall outcome. The Committee notes that it is also an opportunity to leverage the capabilities of the Oracle software that is the basis of the IRIS application. The Committee recommends that full advantage be taken of the capabilities of the Oracle software, in particular to continue to adapt ILO processes to reduce costly customization as well as ensure full advantage is taken of all modules of the Oracle software.
28. In terms of expectations regarding the cost/benefit impact of the Administrative Services review, the Committee recommends that the Office give some thought on how to determine the costs and benefits in both monetary terms as well as softer measures such as greater efficiency, more relevance, better capacity to determine priorities.

29. The Committee was briefed on the process being developed by the Office to assess the effectiveness of the Management Reform. The Committee supports the process being undertaken, and looks forward to hearing further on this. The Committee will report to you as the assessment process develops.

Recommendation 6 (2015): That the Director-General review the full range of capabilities of the Oracle software that underpins the IRIS application, in particular to continue to adapt ILO processes to reduce costly customization as well as ensure full advantage is taken of all modules of the Oracle software.

Recommendation 7 (2015): That the Director-General consider developing metrics that will enable quantitative and qualitative assessments to be made of the effectiveness of outcomes of the administrative services review project.

Recommendation 8 (2015): That the Director-General ensure that any future model for administrative services incorporates an appropriate internal governance and internal control framework, particularly for control and assurance functions.

30. The Committee followed up on the implementation of the Committee's prior recommendations at each meeting. The results are summarized in the annex.
31. The Committee has also reviewed the status of implementation of both internal and external audit recommendations, and notes that implementation memoranda have been prepared and that follow-up by the office of the Treasurer and Financial Comptroller has continued. At the request of the Committee the Office has begun a process to report to the Committee in a more qualitative manner on the implementation of internal audit recommendations. This process is at an early stage of development and the Committee will report further to you as it develops.

Self-assessment

32. In the light of the experience gained during the year, the Committee has initiated a process of self-assessment so that it may further consider how it may best fulfil its role as an independent oversight advisory body that can review the effectiveness and complementarity of the internal and external audit functions alongside the risk management functions of the Office in order to provide appropriate advice. The assessment indicated a few areas where the Committee can be more efficient, with the assistance of the Office, which the Office has committed to provide. As regards the support the Committee provides to the Governing Body, the Committee would welcome more feedback and interaction with the Governing Body so as to ensure that the Committee meets your expectations.

Geneva, 14 February 2015

(Signed) Ms H. Wild
Chairperson

Annex

Prior IOAC recommendations

1. In its report to the Governing Body in March 2014, the Committee reported on recommendations from 2012 and 2013. The Committee has continued to follow up on implementation of those recommendations that remained outstanding and reports as follows:

Recommendation 2 (2012): The Committee recommended that the Office embark on a formal exercise to collect skills mapping data on all ILO staff more promptly than the current target date of 80 per cent completion by 31 December 2015.

2. The Committee will evaluate this later in 2015.

Recommendation 6 (2012): The Committee recommended that the Office consider reducing the time frame for the implementation of audit recommendations once a higher level of compliance has been achieved.

3. The Committee notes that in 2014, the six-month target has been met and that it will be further reduced in 2016–17, and that the recommendation has thus been satisfied.

Recommendation 4 (2013): Given the importance of an effective Performance Management System (PMS), the Office should consider:

- (a) Using the PMS for the evaluation of ILO senior officials as a means to set the tone for senior management's commitment; and
- (b) Holding all managers accountable for ensuring compliance with PMS deadlines by including appropriate indicators and targets in each manager's performance evaluation.

4. The Committee notes that the Director-General has decided to implement this recommendation.
5. The Committee made a number of recommendations in 2014. Their implementation status is as follows:

Recommendation 1 (2014): The Office should, in consultation with the External Auditor, review financial reporting to ensure that all stakeholders are readily able to understand the implications of audited figures and thereby improve the usefulness of the Financial Report.

6. The Committee notes that the Office has taken action on this, together with the External Auditor. The Committee will review the results of this work when it reviews the 2014 financial statements in May 2015 and will report to you in June 2015.

Recommendation 2 (2014): The Office should, in consultation with the External Auditor, make financial statements easier to understand, particularly in view of the adoption of additional IPSAS standards, to ensure that they are accessible for people who may not have a technical background in financial management.

7. See comment on Recommendation 1 (2014).

Recommendation 3 (2014): The Office should, in consultation with the External Auditor, explore how to avoid complex reconciliations (resulting from the implementation of IPSAS) between actual and budget figures in the financial report.

8. See comment on recommendation 1 (2014).

Recommendation 4 (2014): The Office should, in consultation with the Governing Body, continue to explore and implement measures that are designed to fully fund the After Service Health Insurance liability over an appropriate period of time.

9. The Committee reiterates the importance of this recommendation, and urges the Office and Governing Body to consider all possible means to implement it. See Recommendation 1 (2015).

Recommendation 5 (2014): The Director-General should ensure the allocation of adequate resources to meet the approved 2014 internal audit plan and to maintain a responsive investigation unit, to the IAO at the beginning of the financial period and that, if subsequent events indicate that additional resources are required to meet investigation needs, these be provided.

10. The Committee notes that this recommendation was implemented in the year 2014 and should be considered as superseded by recommendations 3 (2015) and 4 (2015).

Recommendation 6 (2014): The Director-General should implement an enterprise risk management approach that can be institutionalized within the culture of the Office.

11. The Committee notes that implementation of this recommendation has begun and it is now superseded by Recommendation 5 (2015).

Recommendation 7 (2014): The Director-General should ensure that the Information Technology Governance Committee is activated and a comprehensive workplan developed to support an efficient and effective use of IT resources and that IT risks are appropriately managed.

12. The Committee considers this recommendation is implemented.

Recommendation 8 (2014): On the basis of the results of the Field Operations Review, the Director-General should ensure that the full range of IRIS capabilities, supporting strong internal control and the integrity of internal governance, are maximized in the IRIS field roll-out strategy.

13. The Committee notes that this recommendation is largely implemented and should be considered as superseded by Recommendations 6 (2015), 7 (2015) and 8 (2015).