



# Governing Body

344th Session, Geneva, March 2022

Programme, Financial and Administrative Section

PFA

Audit and Oversight Segment

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## Report of the Independent Oversight Advisory Committee

### Purpose of the document

This document contains the 14th annual report of the Independent Oversight Advisory Committee, covering the period from February 2021 to January 2022, for debate and guidance (see the draft decision in paragraph 5).

**Relevant strategic objective:** Not applicable.

**Main relevant outcome:** 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 Office follow-up to the recommendations contained in the attached report.

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

**Related documents:** [GB.335/PFA/6](#); [GB.340/PFA/8\(Rev.1\)](#); [GB.341/PFA/8](#); [GB.343/PFA/8](#).

1. In accordance with its terms of reference,<sup>1</sup> the Independent Oversight Advisory Committee (IOAC) conducted its work during the period from February 2021 to January 2022 through regular and ad hoc virtual meetings held on 17–18 May 2021, 23 August 2021, 22 September 2021, 3–5 November 2021 and 25–27 January 2022. The November 2021 meeting was held in person in Geneva, with all other meetings held virtually.
2. The IOAC comprised the following members until 31 December 2021:
  - Ms Malika AÏT-MOHAMED PARENT (France/Switzerland)
  - Mr Frank HARNISCHFEGER (Germany)
  - Mr Verasak LIENGSRIRIWAT (Thailand)
  - Ms Marian McMAHON (Canada)
  - Mr N.R. RAYALU (India).
3. At its 343rd Session (November 2021), the Governing Body appointed two new members for the three-year term commencing 1 January 2022.<sup>2</sup> The new membership, comprised of the following members, met in January 2022:
  - Ms Malika AÏT-MOHAMED PARENT (France/Switzerland)
  - Mr Gonzalo CASTRO DE LA MATA (Peru)
  - Mr Marcel JULLIER (Switzerland)
  - Mr Verasak LIENGSRIRIWAT (Thailand)
  - Ms Marian McMAHON (Canada)
4. The Director-General transmits herewith in the appendix to this document the 14th annual report of the Committee to the Governing Body for its consideration.

## ► Draft decision

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5. **The Governing Body took note of the report contained in the Appendix to document GB.344/PFA/8(Rev.1) and requested the Office to take into account the comments received.**

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<sup>1</sup> Approved by the Governing Body at its 341st Session in March 2021 ([GB.341/PFA/8/Decision](#)).

<sup>2</sup> [GB.343/PFA/8](#); [GB.343/PFA/8/Decision](#).

## ► Appendix

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### 14th annual report of the Independent Oversight Advisory Committee

#### Executive summary

The Independent Oversight Advisory Committee (IOAC) presents to the Governing Body its 14th annual report, on its work during the period from February 2021 to January 2022, which was subject to adaptations in format and methods due to challenges caused by the COVID-19 pandemic.

The Committee complimented the Director-General and his management team for swiftly activating the business continuity and crisis management plan in response to the pandemic in early 2020, which enabled the Office to continue its operation to meet the constituents' needs in a different working environment.

The Committee was able to cover all key areas of its mandate through more frequent exchanges in addition to its regular meeting schedule. All meetings were held virtually except for the November 2021 meeting, which was held in person in Geneva. The Committee also received briefings on business innovation, evaluation and the operations of the International Training Centre of the ILO in Turin (Turin Centre). The Committee noted a number of the policy and process improvements implemented and the results achieved during the year despite the pandemic, including but not limited to: (a) the timely submission of the 2020 consolidated financial statements and the completion of external audit work with an unmodified audit opinion; (b) the comprehensive content of the 2020 Statement of Internal Control issued by the Director-General and the process used in producing it; (c) progress achieved in the areas of risk management and business continuity management; (d) the establishment of the ILO Information Technology Strategy 2022–25 and the Human Resources Strategy for 2022–25, outlining the main focus of work and major targets and milestones in these two areas; (e) the development of a six-step model for the Office-wide skills-mapping exercise, and the planned fast-tracking of those steps in 2022 leading towards actions to be undertaken in the context of the Human Resources Strategy for 2022–25; (f) the progress made on the development of an easy-to-understand “process flowchart” as a visual guide to the processes for the reporting and subsequent investigation of wrongdoings as well as the follow-up of substantiated cases, with a view to promoting transparency and reinforcing a culture of reporting wrongdoings; and (g) the adoption of a new delivery model to ensure the continued success of the Turin Centre.

The Committee made the following recommendations:

**Recommendation 1:** The Committee encourages management to complete the skills-mapping exercise in 2022 as planned. The Committee expects that the end result will be useful in implementing the Human Resources Strategy for 2022–25 and associated learning action plan.

**Recommendation 2:** Management should finalize the process flowchart summarizing the process for handling the reporting of wrongdoings and the follow-up of substantiated cases. Furthermore, management should share the flowchart with all staff members, individual and service contract holders and ensure that they are informed and given appropriate training in understanding and using it. Management should treat the flowchart as a living document and update it as appropriate in order to encourage and facilitate a culture of reporting wrongdoings in line with best practice in other international organizations.

**Recommendation 3:** Management should address the recommendations made by the External Auditor in the 2020 long-form report that relate to compliance with the policies, processes and procedures in place in the delivery of programmes as well as the need to strengthen coordination and knowledge-sharing among the various divisions of the Office.

## I. Introduction

1. The IOAC is pleased to present its 14th annual report on its work from February 2021 to January 2022.
2. All meetings were quorate, and all members affirmed and signed a declaration that they had no conflict of interest.
3. The IOAC 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. In addition, the Chairperson represented the IOAC at the sixth meeting of United Nations (UN) system oversight committees in December 2021, the outcomes of which were shared with IOAC members at the January 2022 meeting.
4. Two members of the Committee, Mr Frank Harnischfeger and Mr N.R. Rayalu, ended their terms in December 2021. The Committee would like to acknowledge their work and participation over their six years as members. Two new members, Mr Marcel Jullier and Mr Gonzalo Castro de la Mata, began their terms with the IOAC at the January 2022 meeting and the existing three members were extended for another term, starting also in January 2022.
5. Considering the membership turnover, the Committee unanimously decided to maintain Ms Marian McMahon and Mr Verasak Liengsririwat as Chairperson and Vice-Chairperson, respectively, for 2022.

## II. Oversight in 2021-22

6. The coronavirus disease (COVID-19) and its variants continued to have an impact on the operations of ILO and the Committee in 2021, with ILO staff at headquarters and most field locations continuing to work remotely for most of the year. Committee meetings were held on 17–18 May 2021, 23 August 2021, 22 September 2021, 3–5 November 2021 and 25–27 January 2022. The November meeting was held in person in Geneva, with all other meetings held virtually.
7. The IOAC is appreciative of the support and cooperation received from the Director-General and the ILO's senior management and staff during the past year. The presentations and briefings to the IOAC continued to be of high relevance to its work. The IOAC is also appreciative of the dialogue on key issues, acknowledging the challenging circumstances under which all staff were working. The Committee would like to commend the Treasurer and Financial Comptroller's Office for the excellent secretariat services provided throughout the reporting period.
8. During its meetings, the Committee met with senior Office officials, including the Director-General, the Treasurer and Financial Comptroller, the Chief Internal Auditor, the Principal Investigator, the Director of the Human Resources Development Department (HRD), the Director of the Evaluation Office (EVAL), the Senior Risk Officer, the Director of the Information and Technology Management Department (INFOTEC), the Ethics Officer and the Director of the International Training Centre of the ILO in Turin (Turin Centre), in order to follow up on matters from its previous sessions and to receive information on items within its mandate. In addition, the Committee met with the External Auditor at its May 2021, November 2021 and January 2022 meetings.
9. As is good practice for oversight committees, the Committee held in camera meetings with the Chief Internal Auditor, the External Auditor and others as it deemed appropriate.

10. The Committee appreciated the opportunity to present its comments on the annual financial statements and the report of the External Auditor to the Governing Body in May 2021. The Committee also met with members of the Governing Body selection panel in September 2021 to provide its technical assessment of the candidates under consideration for membership in the IOAC.
11. The Committee was informed that its annual report for 2020–21 was accepted by correspondence at the 341st Session (March 2021) of the Governing Body. In particular, the Committee notes that the revised terms of reference for the IOAC were approved at this time. These revisions were incorporated into the Committee's work plans for the period covered by the present report.

### **III. Details of IOAC activities and advice provided**

#### **A. Internal processes and business units**

##### **Financial reporting and financial statements**

12. As indicated above, the Committee provided a verbal update on its review of the 2020 financial statements to the Governing Body in May 2021 before they were presented and adopted at the Conference. In relation to the financial statements for the year ended 31 December 2020, the Committee noted that the Office continued to present the results in accordance with the International Public Sector Accounting Standards. As a result, the presentation of the ILO's statements was consistent with that of other UN organizations and other entities in the international public sector.
13. The Committee also observed that the Office had achieved an unmodified audit opinion on the consolidated financial statements. The Committee was satisfied that the external audit plan reviewed in September 2020 was fully executed and was pleased, in particular, to note that the External Auditors were able to complete their reviews of ILO country offices and programme implementation and delivery remotely. The Committee took note of the fact that the delivery rate of regular budget in 2020 was lower than usual for the first year of a biennium and was pleased to note that the Office was monitoring the situation to ensure that a timely and appropriate delivery was maintained in 2021.
14. Additionally, the Committee drew the attention of the Governing Body to the decrease in the rate of collection of assessed contributions and the related increase in the provision of uncollectible amounts. Although the amounts were not significant in 2020, they might indicate a trend arising from the impact of the pandemic on the financial capacity of various Member States.
15. The specific issues addressed with the representatives of the External Auditor relating to the financial statements included the following:
  - The International Auditing and Assurance Standards Board had issued guidance on additional areas of audit focus as a result of COVID-19. The External Auditor provided assurances that this guidance had been addressed in evaluating accounting estimates, subsequent events and the going concern assumptions during the audit of the ILO.
  - The Committee was satisfied with the explanations received from the External Auditor that the major changes of assumptions (discount rates and medical cost inflation rate) used for the valuation of After-Service Health Insurance (ASHI) liability were reasonable and

consistent with other UN entities in Geneva and noted that the impact of the unfunded ASHI liability on the net asset position remained significant.

### Internal controls

16. The Committee continues to acknowledge the Office's efforts in issuing the Statement of Internal Control as part of the annual financial statements reporting process, a best practice adopted by many UN organizations. The Committee noted the areas identified by management in 2020 as needing improvement, as well as progress made on issues identified in previous years, in particular with regard to efforts to strengthen the ethics function within the ILO, in addition to the need to address digital governance in the era of virtual oversight.
17. Based on the Committee's discussions with internal and external auditors as well as management on the process involved in producing this statement and the results presented, the process appears robust. It was noted that the areas for improvement related primarily to the efficiency of operations and did not indicate any material weaknesses related to the overall effectiveness of internal controls.

### Risk management

18. The Committee was presented with the streamlined risk management framework in January 2021 and noted that the responsibility for risk management had been directed to the Senior Management Team instead of the previously established Risk Management Committee.
19. The IOAC was provided with an update of activities undertaken in 2021 and noted the progress made in publishing the Enterprise Risk Management Framework and the review of the risk registers. The work plan for the fraud risk assessment continues to progress, with the next report expected on the Organization as a whole. The Committee will continue to monitor this important initiative and others in order to ensure that accountability for managing risk continues to be clarified and operationalized and that best practices identified across the UN system are incorporated at the ILO, as appropriate.
20. In the area of business continuity management, the Committee noted that the ILO was able to continue its business activities throughout 2021, both virtually and in person. In 2021, the UN Joint Inspection Unit (JIU) undertook a review of business continuity practices during the pandemic. The ILO was included in this review and the Committee encourages management to implement the recommendations identified in order to continue to provide the high level of service in this area.

### Human Resources Development Department

21. During 2021, the Committee was updated on the ongoing efforts by HRD to assist staff in transitioning to and continuing to operate in a remote work environment. The Committee supports the actions taken to support the flexible working arrangements imposed on the ILO during the pandemic and will meet with management to discuss how they will monitor and address the mental health issues of staff as these trying circumstances continue.
22. In its report to the Governing Body in March 2021, the Committee encouraged management to ensure that the skills-mapping exercise produced an end result that could be understood and implemented in developing the appropriate human resources to meet the current and future needs of the ILO.

23. The Committee discussed the progress made on the skills-mapping exercise currently undertaken by HRD and the Business Innovation Unit (BIU), building on the experience gained from the pilot exercise conducted by the BIU on future skills-mapping for the Global Technical Team in the Skills and Employability Branch of the Employment Policy Department. The Committee noted the six-step model adopted based on the pilot project and the efforts being made to roll this model out to the technical areas first, followed by the rest of the Organization. It is the Committee's understanding that the actual skills-mapping will be undertaken by all areas during 2022.
24. The Committee continues to view human resources management as a key driver of change for the Organization's performance and to emphasize the importance of demonstrating effectiveness in this area in implementing the Human Resources Strategy for 2022–25.

► **Recommendation 1 (2022) – Follow-up from recommendation 1 (2021)**

The Committee encourages management to complete the skills-mapping exercise in 2022 as planned. The Committee expects that the end result will be useful in implementing the Human Resources Strategy for 2022–25 and the associated learning action plan.

25. The Committee notes that the work planned by the External Auditor for 2022 includes follow-up on the progress made on the 2019 recommendations resulting from the in-depth operational audit undertaken of the ILO's human resources management functions. The Committee will continue to monitor these actions and encourages management to ensure that they are completed in a timely manner.

#### International Training Centre of the ILO

26. The Committee met again with the Director and the Treasurer and Chief of Financial Services of the Turin Centre. The Committee acknowledged the adoption of a new delivery model to ensure the continuity of the Centre in the current environment.
27. The Committee noted that under the Turin Centre's Programme and Budget for 2022–23, there is a plan to further delegate some decisions to the level of programme managers and to automate a number of manual controls. The Committee was informed that management would include the Statement of Internal Control in the Centre's 2022 financial statements after programme managers had given assurances.

#### Information and Technology Management Department

28. The Committee met with the new Director of INFOTEC and was provided with an update on the ILO Information Technology Strategy 2022–25. With the demand for digital products increasing, the Committee encourages INFOTEC to report on and update the Strategy on an annual basis. The plan to standardize the ILO network on laptops and to ensure continuous IRIS access on these controlled computers is of particular interest to the Committee.
29. The Committee also noted that the continued availability of the IT Investment Fund was considered critical to the successful delivery of the Strategy; it would therefore continue to monitor the Office's efforts to provide estimated costs and redeploy available resources to areas identified as high priority in the Strategy.

30. The Committee requested an update on cybersecurity and ransomware from INFOTEC and appreciated the discussion on IT security awareness training and the use of data analytics in monitoring risk factors. It also noted the publication in 2021 of a JIU report on governance with respect to cybersecurity, and looks forward to reviewing the implications of the findings with management.

## B. Internal and external oversight functions

### Internal audit

31. The Committee met regularly with the Chief Internal Auditor and other staff of the Office of Internal Audit and Oversight (IAO) in order to review and follow up on progress being made under the biennial work plan, as well as the challenges posed as a result of the pandemic.
32. The Committee noted that the IAO had prepared a strategic plan for 2021–2026, setting out a vision, mission and targets to maximize the effectiveness of the IAO in the context of the ILO's strategic plan and programme and budget. With approval from management, the IAO has begun implementation of this new way forward.
33. During 2021, the IAO issued four assurance audit reports covering two field office locations (one in Asia and the Pacific and the other in Latin America and the Caribbean) and two headquarters-related reports. Another six audit assignments were at various stages of reporting and should be finalized in 2022. The Committee also noted that two audits were completed at the Turin Centre.
34. The Committee recognized that the IAO's activities were significantly curtailed during the year due to the global pandemic, both at headquarters and at field offices where the ILO has been working remotely since mid-March 2020. The Committee looks forward to the IAO continuing to use its long-term agreements with global consultancy firms to undertake field audit work as well as expanding its capacity to perform audits remotely.
35. With respect to the five strategic recommendations presented in the Chief Internal Auditor's report to the Governing Body for the year ended 31 December 2021 (GB.344/PFA/9), as well as the detailed recommendations made in the four assurance audit reports, the Committee encourages management to strengthen areas in which underlying weaknesses in internal controls have been identified, where practicable. In cases where management disagrees with the recommendations made, the Committee suggests that the IAO and management determine a mutually acceptable resolution to mitigate the identified risk.
36. The Committee also encourages the IAO to continue increasing its agility in adapting to the changing environment and enhancing the audit team's skills in the area of data analytics and other digital audit skills in implementing its biennial work plan.

### Investigations

37. The Committee was provided with ongoing updates on the work being done by the investigation team in the IAO. The Committee was pleased to note that 41 cases were reviewed and/or investigated during the course of the year and an additional 24 were awaiting reporting. The Governing Body may wish to note that 60 active cases were carried forward to 2022, compared with 61 cases carried forward to 2021. Staff continuity in the investigation team is needed to address the caseload and should be considered a priority, in order to ensure that the ILO maintains a culture where reporting wrongdoings is encouraged and visible actions are taken to address the issues in a timely manner.

38. As reported in 2021, an overview of the processes in place for handling cases of wrongdoing at the ILO was requested. Although there are robust lines of communication, the Committee believes that the overview could be less bureaucratic and focus more on the staff members making the report, in order to ensure that the culture of reporting wrongdoings is reinforced through easily understood processes.
39. The Committee received the consolidated process flowchart from management itemizing types of wrongdoings and specifying where they are reported; who is responsible for their investigation; who reviews and recommends action; who makes the decision on the sanction; and which department is responsible for implementing that decision. As a first step, the flowchart clarifies current roles and responsibilities. In the future, further actions may be warranted in order to ensure adherence to best practices, including measures to ensure confidentiality, to strengthen a culture of accountability and to minimize the risks of reprisals.

► **Recommendation 2 (2022) – Follow-up from recommendation 2 (2021)**

Management should finalize the process flowchart summarizing the process for handling the reporting of wrongdoings and the follow-up of substantiated cases. Furthermore, management should share the flowchart with all staff members, individual and service contract holders and ensure that they are informed and given appropriate training in understanding and using it. Management should treat the flowchart as a living document and update it as appropriate in order to encourage and facilitate a culture of reporting wrongdoings in line with best practice in other international organizations.

#### Evaluation Office

40. The Committee met with the Director of EVAL and was provided with an update on the *Annual Evaluation Report 2020–2021*, presented to the Governing Body in November 2021. It noted that EVAL was able to stay on track with its planned evaluations as well as implementing 95 per cent of its results-based strategy.
41. The Committee looks forward to continuing regular meetings with EVAL to ensure that its oversight role continues to operate in effective coordination with the internal and external audit functions.

#### External Auditor

42. In relation to External Auditor's report to the Governing Body on the financial operations of the ILO (the "long-form report"), the Committee would like to express its appreciation to the Commission on Audit of the Republic of the Philippines for the review of programme/project implementation and delivery amidst the pandemic.
43. The Committee emphasizes the need to enhance programme policies and strategies to reflect the current economic and health crisis. In addition, it encourages management to address the recommendations that will improve compliance with the processes and procedures in place and strengthen coordination and knowledge-sharing among the various divisions of the Office.
44. In respect of the External Auditor's review of the control environment in country offices, the Committee also supports the recommendations on issues relating to policy compliance and controls in order to promote the effective and efficient delivery of policies, processes and procedures towards the attainment of the ILO's objectives.

**► Recommendation 3 (2022)**

Management should address the recommendations made by the External Auditor in the 2020 long-form report that relate to compliance with the policies, processes and procedures in place in the delivery of programmes as well as the need to strengthen coordination and knowledge-sharing among the various divisions of the Office.

**Ethics**

45. In line with best practices for the ethics function, the Committee noted that a full-time Ethics Officer remains to be appointed. Having previously expressed its concern that the ethics function was performed on a part-time basis, the Committee notes with satisfaction that resources for a full-time Ethics Officer position are included in the Programme and Budget for 2022-23, and the selection process for that position is under way.
46. The Committee met with the current Ethics Officer in November 2021 and was informed that the progress made in the work plan was impeded as he was acting Chief of Branch in his other role. The Committee would like to bring to the Governing Body's attention that the policy on reporting misconduct and protection from retaliation was updated and issued in 2021.

**IV. IOAC internal governance****A. Terms of reference**

47. In 2019, the JIU issued a report on the review of audit and oversight committees in the UN system.<sup>1</sup> Consequently, the IOAC proposed a number of amendments to its terms of reference to reflect best practices. These amendments were approved in March 2021 and have been reflected in the Committee's subsequent work plans.

**B. Follow-up on past recommendations**

48. The Committee received an update from management on the five recommendations made in its 13th annual report. The Committee has noted the progress made on two of those recommendations above, in the sections relating to the Human Resource Development Department, internal audit and investigations.
49. With regard to recommendation 3 (2021), encouraging management to state clearly the extent of its agreement with the recommendations by the External Auditor, the Committee is satisfied that this matter has been addressed in the 2020 long-form report, issued in April 2021.
50. In respect of recommendation 4 (2021), urging management to implement, as soon as practicable, the recommendations made by the External Auditor relating to human resources management, the Committee notes the progress being made by HRD, both in the ILO and with the Human Resources Network and the High-Level Committee on Management at the inter-agency level. The Committee's work plan for 2022 will include the review of the updates provided by the External Auditor in the report expected in May 2022 as to whether these efforts are addressing the original observations.

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<sup>1</sup> JIU/REP/2019/6.

51. As regards recommendation 5 (2021), in which the Committee requested the Governing Body to approve the proposed amendments to the IOAC's terms of reference, the Committee is pleased to note that these were approved at the 341st Session of the Governing Body in March 2021.

#### C. Self-assessment and stakeholder feedback

52. The Committee conducted its annual self-assessment in December 2021. Overall, the operations of the Committee were evaluated as meeting or exceeding expectations. Some administrative changes will be implemented in the current year but overall, no significant changes to our operating procedures were recommended. As a result of the 2020 assessment, efforts were made to expand orientation sessions for new members in January 2022. These sessions will continue in March 2022.
53. As part of the ongoing efforts to improve its functions, the Committee undertook a survey of ILO senior management in 2021 in which it asked for feedback on the effectiveness of the IOAC. Overall, the response was positive. Suggested areas for improvement in its operations were identified, specifically:
- consider expanding the focus of the Committee to country-level activities and related risks;
  - encourage the ongoing orientation of all Committee members in respect of the various ILO business processes and systems.
54. The Committee would like to thank management for investing the time to complete these surveys. The Committee appreciated the feedback and will take suggestions under advisement when finalizing its work plan for 2022.

#### D. Peer review

55. The JIU recommended in its 2019 report on review of audit and oversight committees in the UN system that all UN oversight committees should undertake an independent performance evaluation of their operations once every three years. At the sixth meeting of UN system oversight committees, the chairpersons of audit and oversight committees accepted the concept of an independent performance evaluation, a concept also endorsed by the Chief Executives Board. Both groups considered that a review once every five years, as required for the internal audit function, would be a more acceptable time frame for this exercise.
56. The chairpersons proposed that an internal "peer review" be instituted by members of UN system oversight committees in lieu of an external evaluation. This proposal was considered to be a more cost-effective alternative, since the terms of reference for UN oversight bodies were unique and little expertise in this area would be found in any external entity. In addition, the completion of peer reviews by other members of UN system oversight committees would facilitate the sharing of best practices and lessons learned. Accordingly, a working group has been established to develop a process for conducting reviews of the oversight bodies of other UN agencies, as well as detailed guidance for members of UN system oversight committees in that regard.
57. The IOAC, with ILO management, has agreed to participate in a pilot project of the peer review process in 2022. A three-member team from other UN system oversight committees will undertake a review and assessment of the functioning of the IOAC in relation to its terms of reference and identified best practices within the UN. The Committee would like to thank management for supporting this important exercise and looks forward to presenting the results of the peer review with the Governing Body in its 2023 report.

## E. Work plan 2022

58. Looking ahead to the Committee's work in 2022–23, the preliminary focus will continue to be on the following areas of its mandate: financial statements and external audit, including a review of proposals to replace the External Auditor; internal audit and investigations; risk management and internal controls; ethics; and compliance and probity. As noted previously, the Committee will also participate in a peer review exercise on its functioning.

Geneva, 4 February 2022

*(Signed)* Ms Marian McMahon FCPA, FCA  
Chairperson