INTERNATIONAL LABOUR OFFICE

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Programme, Financial and Administrative Section
Audit and Oversight Segment

PFA

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SIXTH ITEM ON THE AGENDA

Report of the Independent Oversight Advisory Committee

Purpose of the document

This paper transmits the 2017 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 Office 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.), para. 650; GB.316/PFA/6/2; GB.316/PV(&Corr.), para. 657; GB.319/PFA/6/1; GB.319/INS/15/7; GB.319/PV, para. 308; GB/323/PFA/7/2; GB/325/PFA/4; dec-GB.325/PFA/4; GB/325/PFA/4(Add.); dec-GB.325/PFA/4(Add.); and GB/326/PFA/8.

1. In accordance with the revised terms of reference of the Independent Oversight Advisory Committee (IOAC) approved by the Governing Body at its 316th Session (November 2012) [1] and following the appointments made to the IOAC in November 2015, [2] the newly constituted IOAC membership for the three-year term commencing 1 January 2016 is as follows:

   – Ms Bushra Naz MALIK (Pakistan/Canada), Chairperson

   – Mr Luis CHINCHILLA (Peru)

   – Ms Carine DOGANIS (France) [3]

   – Mr Frank HARNISCHFEGER (Germany)

   – Mr N.R. RAYALU (India)

2. The Committee met in Geneva from 26 to 27 May 2016, from 21 to 23 September 2016 and from 25 to 27 January 2017.

3. The Director-General transmits herewith the annual report of the Committee to the Governing Body for its consideration.

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

[2] GB/325/PFA/4; dec-GB.325/PFA/4; GB/325/PFA/4(Add.); dec-GB.325/PFA/4(Add.).

[3] Ms Doganis tendered her resignation from the Committee in December 2016.

Appendix

Ninth annual report of the Independent Oversight Advisory Committee

1. The Independent Oversight Advisory Committee (IOAC) is pleased to present its ninth report on its work from May 2016 to January 2017. The Committee met in Geneva from 26 to 27 May 2016, from 21 to 23 September 2016 and from 25 to 27 January 2017. All meetings were quorate and all members affirmed and signed a declaration that they had no conflict of interest. Ms Doganis tendered her resignation from the Committee in December 2016.

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 are 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 Director of the Strategic Programming and Management Department, the Director of the Human Resources Development Department (HRD), the Chief Internal Auditor, the Director of the Information and Technology Management Department (INFOTEC), the Ethics Officer and the Senior Risk Officer in order to follow up on matters from its previous sessions and to receive information on items within its mandate. In addition, the Committee received briefings from the Director of the Partnerships and Field Support Department (PARDEV), the Director of the Evaluation Office (EVAL), the Director of the International Labour Standards Department (NORMES) and the Regional Director of Europe and Central Asia with a view to broadening its understanding of the ILO's operations. The Committee also met with representatives of the External Auditor from both the Office of the Auditor General of Canada and the Commission on Audit, the Philippines.

3. The Committee appreciated the opportunity to meet with members of the Governing Body in September 2016 for an informal briefing. That occasion provided an opportunity to discuss the Committee's work and identify areas for possible improvement.

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

4. The IOAC reviewed the quality and level of financial reporting, in particular the documents that make up the financial reporting process, namely, the financial report, the financial statements and the External Auditor's opinion and report. As reported to the Governing Body in June 2016, the Committee had reviewed the financial statements for 2015 in a meeting with the External Auditor and senior finance staff of the Office. The review had enabled the Committee to confirm to the Governing Body that the independence of the External Auditor had not been compromised and to advise 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 ending 31 December 2015, noting the Report of the External Auditor.

5. The Committee's review focused on the presentation of the figures, notes and complementary analytical reporting by the Office. It concluded that the ILO's implementation of changes in accounting policies had been appropriate, thorough and conducted in a collaborative manner with the External Auditor. The Committee had received satisfactory replies from both the Office and External Auditor on a number of points of technical clarification and, accordingly, there was nothing of significance from a technical accounting point of view that the Committee wished to bring to the attention of the Governing Body.

6. As recommended in its previous annual reports, the Committee noted that the utility of the financial report had significantly been enhanced. Recalling its previous recommendation that the presentation, in particular the language, could be made more comprehensible for non-accountants, the Committee was pleased to see that this advice had continued to be followed. However, it encouraged the Office to consider providing a concise narrative around key messages for the benefit of its stakeholders.

> *Recommendation 1 (2017):*
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> *The Committee encourages the Office to consider providing a concise narrative around key messages for the benefit of its stakeholders in its financial statements.*

7. With respect to the financial assets, the Committee noted that during the year there had been a reallocation in the portfolio of investments which needed continued vigilance to keep the risks limited.

8. Based on its review and discussion with the External Auditor, the Committee was satisfied that the external audit plan was executed to address the risks identified. It concurred with the recommendations by the External Auditor in respect of the risk management process identified during the performance audit.

9. With respect to the Statement on Internal Control, the Committee was pleased to see that the Office had continued its measured approach towards implementation, with its formal issuance targeted for the 2017 financial statements.

10. With respect to the report of the External Auditor to the Governing Body, the Committee noted there was room to accelerate the implementation of certain past recommendations.

Accounting policies and standards

11. The Committee's review of the financial statements was preceded by a review of accounting policies, which it was satisfied had been applied consistently. It also reviewed the process adopted by the Office for assessing the impact of five new International Public Sector Accounting Standards (IPSAS), which had been issued during the year and would be applicable from 2018. The Committee was informed by the Office that no major impact was foreseen for their application and that the approach and applicability dates would be finalized after discussions at the United Nations Task Force on Accounting Standards. After further reviewing this process with the External Auditor, the Committee concurred with the approach.

External audit scope, plan and approach

12. At its meeting in September 2016, the Committee met the team representing the new External Auditor – the Commission on Audit, the Philippines – and thoroughly reviewed the external audit scope, plan and approach for the financial year ending 31 December 2016. The Committee is satisfied to report that it considered these aspects to be reasonable and adequate. Furthermore, the Committee consulted both the Chief Internal Auditor and representatives of the External Auditor in order to ensure that their respective audit plans did not overlap and, thereby, to optimize the overall audit coverage for the Organization. As the programme evaluation framework adopted by the external auditors as set out in the International Organisation of Supreme Audit Institutions (INTOSAI) Standards on 3Es Audit and the mandate of the ILO's Evaluation Office (EVAL) cover similar areas, there needed to be coordination between the External Auditor and EVAL to avoid duplication and ensure best value for money for the ILO.

> *Recommendation 2 (2017):*
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> *The Evaluation Office is encouraged to coordinate its work with the External Auditor to avoid any potential duplication of effort.*

13. The Committee held a private session with representatives of the new External Auditor to discuss areas of mutual interest. The Committee shall continue to use this valuable mechanism to ensure that any concerns regarding the working relationships between the External Auditor, ILO management and the Office of Internal Audit and Oversight (IAO) can be raised by both parties in an open and frank manner. No matters of concern were raised.

Internal audit scope, plan, resources, performance and independence

14. The IOAC met with the Chief Internal Auditor, including in a private session, during each of its sessions. It reviewed the scope, plan, resources, performance and independence of the function.

15. With respect to the approach taken to determine a risk-based audit plan, while the Committee found that the IAO had a sound approach to risk analysis, it considered that the plan might require additional funding as there appeared to be a resource gap. In accordance with best practice, the IAO continues to conduct a periodic reassessment of the resources required to deliver its activities. The Committee recommends that once such a reassessment has taken place, the Director-General should continue his current practice of ensuring that adequate resources are allocated to meet the revised assessment if and when requested.

16. With regard to the performance of the internal audit function, the IOAC noted that delivery of the 2016–17 plan had not progressed as planned and the IAO was facing pressure around its delivery. The IAO had continued to outsource activities to increase capacity in areas requiring specialist skills. The Committee welcomed this approach, which enhanced the qualitative attributes of oversight. The IAO was also conducting desk reviews which boosted the effectiveness and extended the coverage of internal audit. The Committee agreed with the approach to focus the audit on high-risk activities. However, for future plans, the Committee recommends that, in line with the last audit needs assessment, the IAO could consider reducing the number of individual audits and focusing on fewer but larger, more strategic ones.

> *Recommendation 3 (2017):*
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> *In the next audit plan, it is recommended that the IAO consider focusing its activities on larger, more strategic audits in line with future risk assessment.*

17. While the Committee has no concerns regarding the level of independence of the internal audit function, it notes that the adequate availability of resources is one measure of its independence. The Committee appreciates and supports the proposed increase in the IAO's resources contained in the Programme and Budget for 2018–19 but notes that supplementary resources may be required in order to complete the audit plan for 2016–17.

18. The Committee noted that additional requirements would be applicable to IAO following a revision in the Institute of Internal Auditors (IIA) standards with effect from 2017.

> *Recommendation 4 (2017):*
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> *The Chief Internal Auditor should report to the Committee at its May 2017 session on the new requirements imposed by IIA standards together with an action plan and implementation status.*

19. The Committee noted that the continuing relatively high incidence of allegations of fraud or other malpractice had imposed an additional workload on the unit. Determining the

appropriate level of resources for the investigation unit remained a challenge, as that level depended on the volume and nature of investigations required. The Committee was pleased to note that resources for the investigation function had been supplemented when requested. The Committee wishes to emphasize that the provision of adequate resources is of importance to ensure effective and timely investigation of allegations of fraud or malpractice.

20. In this connection, the Committee reviewed the processes that support the maintenance of the ethical and accountability framework throughout the Office, which supports an anti-fraud culture. The Committee is pleased to report that it found the processes to be well structured, but encouraged the Office to continue to assess the need of having additional channels for voicing any concerns in this respect.

> *Recommendation 5 (2017):*
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> *The Committee encourages Management to continue to assess the need of having additional channels for voicing ethical concerns across the ILO in order to further strengthen the accountability framework.*

Risk management and internal controls

21. With regard to the implementation of the Enterprise Risk Management (ERM) Framework in the Office, the Committee noted that, during this period, a new Senior Risk Officer had been appointed. The Committee was pleased to note his assessment that the ERM Framework was practical, specific to the needs of the ILO and was being integrated into management practices. The Committee recommends that the Office carry out an assurance mapping relating to key processes and risks across the three lines of defence, including internal and external assurance and its quality, in order to identify: (a) gaps where there may be need for additional assurance; (b) areas where there is adequate assurance; and (c) areas where there is duplication of effort and opportunities to lighten the process and free up resources. Such an exercise would help ensure the coherence and integration between the internal control framework and the risk management framework, and achieve its strategic objective.

> *Recommendation 6 (2017):*
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> *The Committee recommends that the Office conduct an assurance mapping exercise to manage the adequate and effective assurance of risks facing the ILO.*

22. The Committee noted that the incremental approach to the roll-out of the Integrated Resource Information System (IRIS) during the year had accelerated, with the successful re-implementation at the Regional Office for Africa, in conjunction with its relocation to Abidjan, and the Western European offices. The wider implementation of IRIS had enabled central management services to improve their oversight functions and IAO to undertake monitoring and certain audit activities remotely. The Committee reviewed in detail the business cases of both phase I and phase II of the IRIS roll-out, including the costs and benefits of different options. It was satisfied that the Office's decision on the incremental approach applied to IRIS roll-out was based on a sound analysis.

> *Recommendation 7 (2017):*
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> *The Committee recommends that the Information Technology Governance Committee (ITGC) continue to monitor the cost and time spent for the implementation of phase II of the IRIS roll-out.*

23. The Committee continued to receive briefings relating to the ongoing Business Process Review (BPR). Management informed the Committee that the process adopted had been built on the principles of lean management and that standard operating procedures were

being developed to achieve standardization. The Committee will continue to receive briefings on the status of the BPR to monitor the balance between service and accountability.

24. The Committee continued to review the Human Resources (HR) activities of ILO. The Committee believes that the Office should be setting the standard for HR management in the United Nations System and considers that it is heading in the right direction, although notes that it could move faster in certain areas. From a strategic perspective, as digitization is changing the workplace and the business models, and as the implementation of IRIS and the BPR progress, the organization will continue to be challenged with new skill requirements while experiencing a reduction in administrative resources. Incentives should be provided for staff to assess their skill sets, to adjust to changing business needs and to develop a "never stop learning" approach. The increasing velocity of changes calls for the ILO and each employee to adapt and the current initiatives can only be seen as a starting point.

Recommendation 8 (2017):

HRD should consider implementing quantitative and qualitative workforce planning approaches on a five- to ten-year horizon and explore opportunities to provide incentives for staff to proactively develop future-proof skill sets.

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25. At the informal meeting between the Committee and representatives of the Governing Body in September 2016, it was recalled that the Selection Panel, appointed by the Governing Body for the 2015 IOAC membership, had commented on the need to review the selection process defined in the IOAC terms of reference to ensure that an efficient and cost-effective mechanism was provided for as part of future processes. Noting that the ILO had one of the best processes for the selection of oversight committee members, although it involved time and resources, the Committee recommended that such a mechanism be continued. In order to ensure better geographic distribution and diversity, the Committee considered that the number of candidates on the reserve list could be increased to at least four, to cater for contingencies.

26. The Committee took the opportunity of the possible revision of its terms of reference as described in the previous paragraph to review other aspects for possible adjustments. In doing so, it reviewed the practices of oversight committees across various entities in the UN system, as well as the latest Joint Inspection Unit (JIU) report on internal audit functions and oversight committees, and was pleased to note that in most of the categories the IOAC was following the recommended practice. The Committee however noted that in March 2016 the Governing Body had approved the revised Internal Auditor Charter which provided for an advisory role of the IOAC in respect of the performance evaluation of the Chief Internal Auditor as well as his/her appointment and termination. It may be appropriate to include the same provision in the terms of reference of the Committee.

Recommendation 9 (2017):

The Governing Body should consider amending the terms of reference of the IOAC to provide for its involvement in the appointment and termination of the Chief Internal Auditor, in line with the Internal Audit Charter.

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27. The Committee reviewed the status of implementation of both internal and external audit recommendations and noted the implementation reports. It encourages the Office to continue targeting improvement in the implementation process. The IT tool developed by the Office was considered to be useful, efficient and user-friendly and had also expedited implementation which continues to shorten the implementation time and thus enhance the control environment.

Prior IOAC recommendations

28. The Committee has also continued to follow up on implementation of its prior recommendations, 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

29. In September 2016, the Committee reviewed the implementation of the Employee Profile (EP) module and was informed by the Office that, although the EP was a useful instrument for workforce planning, it was only one of the tools used by the Office. The combination of the EP module with the new Mobility Policy, the new collective agreement on Recruitment and Selection, the annual HR reviews, and the new e-recruitment tool planned for 2017 continued to support overall efforts on workforce planning. The Committee agreed with the management response and substituted this recommendation with recommendation 8 of 2017.

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

30. The Committee was briefed on the steps taken by the Office in this regard, including the Governing Body's decision at its March 2016 session and the current status of the United Nations System Working Group report being prepared for consideration by the UN General Assembly. The Office reported that a further paper was being prepared for the Governing Body in March 2017 and that any decision by the General Assembly would also need to be taken into consideration. The Committee reiterated its advice that the liability should be funded, consistent with the ILO's mandate to promote high standards of employment conditions. Furthermore, the Committee encouraged the Office to continue exploring other options relating to cost reduction, such as third party administration, which might yield additional benefits and options such as synergizing costs among agencies, in particular those based in Geneva with self-administered plans. The Committee will continue to follow progress in this respect.

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

31. The Committee continued to review the progress achieved by the Office in rolling out risk management throughout the ILO and the commitment and response received in this respect. Submission of risk registers from all units of the Office has almost been completed. A new Senior Risk Officer joined the ILO in late 2016 and has been assessing the risk management process. After reviewing with satisfaction the workplan for the implementation of the ERM in 2017, the Committee closed this recommendation although it shall continue to review progress achieved in respect of the workplan.

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 to ensure full advantage is taken of all modules of the Oracle software

32. Based on an update on the IRIS roll-out status provided by INFOTEC, as well as the review of the business cases for both phase I and phase II of the implementation, the Committee

considers that this recommendation is implemented, and substitutes it with recommendation 7 of 2017.

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

33. The Committee has continuously reviewed the process as indicated in the present report and is pleased to note that considerable progress has been made to date. It looks forward to expediting the process, in particular with regard to the development of metrics. The Committee will continue to monitor the process and will inform the Governing Body accordingly.

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

34. The Committee will comment on the implementation of this recommendation upon completion of the Business Process Review.

Recommendation 1 (2016): The Chief Internal Auditor, based on his risk assessment, should consider integrating an audit of human resources-related processes in his revised audit plan for 2017

35. The Committee was informed by the Chief Internal Auditor that this recommendation was considered in IAO's risk assessment at the end of 2016. As HRD would be subject to the Business Process Review in 2017, and considering the plan to implement an e-recruitment application, it was considered more appropriate to include the audit of HR-related processes in the internal audit plan for 2018. The Committee concurs with this assessment, hence this recommendation is closed.

Recommendation 2 (2016): In the event that the Internal Audit Plan is revised and/or that additional resources are needed, the Director-General should ensure that resources are allocated accordingly

36. The Committee noted that such a request had not yet been made by the IAO for the current biennium, but had always been supported by the Director-General in the past. This recommendation is therefore closed.

Recommendation 3 (2016): As part of the Business Process Review, the Office should be encouraged to address administrative complexity through standardization and harmonization

37. The Committee has planned to discuss these aspects of the BPR with management during its May 2017 session and shall report accordingly.

Recommendation 4 (2016): The IAO should consider expanding
its role in the follow-up of management responses to its
recommendations

38. Based on the comprehensive approach for follow-up of management responses, as currently adopted by management and IAO, the Committee concurs with the Office's conclusion that the current system is comprehensive and therefore closes this recommendation.

Geneva, 9 February 2017   *(Signed)*   Ms Bushra Naz Malik

Chairperson