International Labour Organization

GB.350/PFA/6

Governing Body

350th Session, Geneva, 4–14 March 2024

Programme, Financial and Administrative Section

PFA

Audit and Oversight Segment

Date: 16 February 2024
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Sixth item on the agenda

Report of the Independent Oversight Advisory Committee

Purpose of the document

This document contains the 16th annual report of the Independent Oversight Advisory Committee, covering the period from February 2023 to January 2024, for debate and guidance (see the draft decision in paragraph 4).

Relevant strategic objective: Not applicable.

Main relevant outcome: Enabling outcome B: Improved leadership and governance.

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.341/PFA/8; GB.344/PFA/8(Rev.1); GB.347/PFA/7.

1. In accordance with its terms of reference, [1] the Independent Oversight Advisory Committee conducted its work during the period from February 2023 to January 2024 through regular meetings held on 1–2 June 2023, 18–20 September 2023, and 24–26 January 2024. All three meetings were held in person in Geneva.

2. The Committee comprised the following members:

- Ms Malika Aït-Mohamed Parent (France/Switzerland)
- Mr Gonzalo Castro de la Mata (Peru/United States of America)
- Mr Marcel Jullier (Switzerland)
- Mr Verasak Liengsiriwat (Thailand)
- Ms Marian McMahon (Canada)

3. The Director-General hereby transmits the 16th annual report of the Committee to the Governing Body for its consideration.

▶ Draft decision

4. The Governing Body:

(a) took note of the 16th annual report of the Independent Oversight Advisory Committee (IOAC) appended to document GB.350/PFA/6 and requested the Office to take into account the guidance it provided; and

(b) took note that the IOAC will submit to the Governing Body at its 350th *bis* Session (June 2024) any proposed amendments to its terms of reference.

[1] GB.341/PFA/8, Appendix II, approved by the Governing Body at its 341st Session (March 2021).

▶ Appendix

16th annual report of the Independent Oversight Advisory Committee

Executive summary

The Independent Oversight Advisory Committee (IOAC) presents to the Governing Body its 16th annual report, on its work during the period from February 2023 to January 2024. Adaptations in format and methods were made to address the various subjects undertaken by the Committee.

The Committee would like to acknowledge the Director-General and his management team for introducing hybrid working modality and more flexible human resource management on a trial basis. It is the Committee's understanding that this will be reviewed in June 2024.

The Committee was able to cover all key areas of its mandate through more frequent exchanges in addition to its regular meeting schedule. Additionally, the Committee participated in a number of interactions with the Joint Inspection Unit of the UN system (JIU), informal sessions with Governing Body representatives and other Chairs of UN Oversight Committees.

The Committee noted a number of policy and process improvements implemented and the results achieved during the year. In particular; (a) the timely submission of the 2022 consolidated financial statements and the completion of external audit work with an unmodified audit opinion; (b) the comprehensive content of the 2022 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; (d) addressing the staffing needs in the Internal Audit and Investigations Office; and (e) continued progress on the skills mapping exercise.

The Committee made the following recommendations:

Recommendation 1: The IOAC recommends that management address the External Auditor's recommendations on the review of the operations of the Bureau for Employers' Activities (ACT/EMP) and the Bureau for Workers' Activities (ACTRAV), as well as the identified improvement in the controls in procurement management and in the field offices' operations on a timely basis.

Recommendation 2: The IOAC encourages management to complete the action plans identified in the Statement of Internal Control relating to accountability and capacity for the cybersecurity controls to be enhanced, oversight of implementing partners to be strengthened and the policy on external collaboration contracts to be updated.

Recommendation 3: The Committee encourages management to complete the skills-mapping exercise for the priority groups delivering on the technical policy outcomes in 2024 and to ensure that Phase 2 is completed as planned. The Committee expects that the results will be useful in implementing the Human Resources Strategy for 2022–25 and the associated learning action plan.

Recommendation 4: Management should prioritize the actions plans to address the Office of Internal Audit and Oversight (IAO) recommendations in the Report on External Collaboration Contracting that may have an impact on the reputation of the ILO.

Recommendation 5: Management should improve the extent and timeliness of the reporting of the progress being made and final actions taken related to all allegations of wrongdoing, while maintaining confidentiality when appropriate. The transparency and accountability demonstrated in this type of reporting would encourage a supportive culture of reporting wrongdoings.

Recommendation 6: The IOAC recommends that management assess the appropriateness of having the Ethics Officer as the ILO focal point for the action plan on the prevention and response to sexual exploitation and abuse. Concurrently, a review of the appropriate budget and resources needed to complete the action plan should be carried out, as well as a review of the appropriate focal point to be assigned.

I. Introduction

1. The IOAC is pleased to present its 16th annual report on its work from February 2023 to January 2024.

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 eighth meeting of United Nations (UN) system oversight committees in December 2023, the outcomes of which were shared with IOAC members at the January 2024 meeting.

4. The Committee decided to maintain Ms Marian McMahon and Mr Verasak Liengsiriwat as Chairperson and Vice-Chairperson, respectively.

II. Oversight in 2023–24

5. Committee meetings were held on 1–2 June 2023, 18–20 September 2023, and 24–26 January 2024.

6. The IOAC acknowledges 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 with the concerned offices. The Committee would like to commend the Treasurer and Financial Comptroller’s Office for the excellent secretariat services provided to the IOAC throughout the reporting period.

7. During its meetings, the Committee met with senior officials, including the Director General, the Deputy Director-General, three Assistant Directors-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 (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 2023 and September 2023 meetings.

8. The Committee appreciated the opportunity to meet with members of the Governing Body in September 2023 for an informal briefing. The occasion provided an opportunity to discuss the Committee’s work as summarized in its annual report and to identify emerging issues where the Committee may want to investigate further with management. The IOAC appreciates the opportunities provided to interact with the Governing Body throughout the year.

9. In January 2024, the IOAC met with the Chair and Executive Secretary of the JIU. This was the second meeting held with JIU representatives and provided the opportunity to discuss system-wide issues the Unit is focusing on and recent reports that have been issued.

10. As is good practice for oversight committees, the Committee held in camera meetings with the Chief Internal Auditor, the External Auditor, the Ethics Officer and the Senior Risk Officer as it deemed appropriate.

11. On behalf of the Committee, the Chairperson presented its annual report for 2022–23 at the March 2023 session of the Governing Body. Additionally, 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 June 2023.

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 2022 financial statements to the Governing Body in June 2023 before they were presented and adopted at the Conference. In relation to the financial statements for the year ended 31 December 2022, 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 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 2022 was executed as planned and was pleased, in particular, to note that the external auditors were able to complete their reviews of the Bureaux, procurement management and the control environment in field offices.

14. The specific issues that the IOAC addressed with the external auditors included the following:

- the assurance that the major changes of assumptions (discount rates and medical cost inflation rate) used for the After-Service Health Insurance (ASHI) valuation were consistent with other UN entities in Geneva, where appropriate.
- the areas identified as needing improvement in the embodiment of the Bureaux (ACT/EMP and ACTRAV) within the organization and organizational improvements identified for both.
- the recommendations made to improve the controls in the areas of procurement management and in the field offices' operations.

▶ **Recommendation 1** (2024)

> The IOAC recommends that management address the External Auditor's recommendations on the review of the operations of ACT/EMP and ACTRAV, as well as the identified improvement in the controls in procurement management and in the field offices' operations on a timely basis.

Internal controls

15. The Committee acknowledges 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 2022 as significant internal control matters arising in the year, as well as matters identified in previous years requiring further work or continued monitoring.

16. 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.

▶ **Recommendation 2** (2024)

> The IOAC encourages management to complete the action plans identified in the Statement of Internal Control relating to accountability and capacity for the cybersecurity controls to be enhanced, oversight of implementing partners to be strengthened and the policy on external collaboration contracts to be updated.

Risk management

17. The IOAC was provided with an update of all activities undertaken in 2023 and noted the progress made. A number of outputs were deferred for completion as the Senior Risk Officer was on secondment for five months. However, we are pleased to note the progress made on a number of important initiatives, such as the fraud risk assessment, the review of the business continuity plans in field locations and the updated strategic risk register for 2024–25.

18. The Committee reviewed the 2023 Fraud Risk Assessment and noted the direction provided to management on the steps to take to reduce financial losses and other damage caused by fraud and corruption. This is an important area for management to take note of as the impact is not just on the financial loss but also on the impact on ILO's reputation.

Human Resources Development Department

19. The Committee was pleased to note the appointment of a Director of HRD in 2023. Discussions were held with the new Director in the September 2023 and January 2024 meetings and the Committee noted the progress being made on the HR Strategy.

20. The Committee continues to follow the progress being made on the skills-mapping exercise. As mentioned in a number of our previous reports, the IOAC encourages management to ensure that the skills-mapping exercise produces an end result that can be understood and implemented in developing the appropriate human resources and skills sets required to meet the current and future needs of the ILO.

21. 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 implementing the Human Resources Strategy for 2022–25.

▶ **Recommendation 3** (2024) **– Follow-up from recommendation 3** (2023)

> The Committee encourages management to complete the skills-mapping exercise for the priority groups delivering on the technical policy outcomes in 2024 and to ensure that Phase 2 is completed as planned. The Committee expects that the results will be useful in implementing the Human Resources Strategy for 2022–25 and the associated learning action plan.

Information and Technology Management Department

22. The Committee met with the management of the INFOTEC department and was briefed on areas including progress made on the information technology (IT) strategy, the overall digitalization of the ILO, cybersecurity, IT security training, inventory of IT systems requiring attention, and the business continuity plan of INFOTEC.

23. The Committee took note of the strategic indicators and progress being made against the two outcomes identified in the IT Strategy: a more efficient, agile and responsive ILO and a more collaborative, insightful and transparent ILO. The IOAC acknowledges the progress being made in this critical department and supports the work done against its strategy.

B. Internal and external oversight functions

Internal audit

24. The Committee met regularly with the Chief Internal Auditor and other staff of the Office of the IAO in order to review and follow up on progress being made under the biennial work plan.

25. The Committee noted that the IAO had prepared a strategic plan for 2021–26, 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 the concurrence from senior management, the IAO has begun implementation of this way forward.

26. During 2023, the IAO issued eight assurance audit reports and one advisory report. And an additional three audit reports related to the Turin Centre were finalized. The assurance audits covered two regional offices, two field offices, one project office, one thematic audit on external collaboration contracting, and three IT audits at headquarters.

27. The Committee reviewed detailed audit plans for five audits at the September 2023 meeting in order to understand how the work is being planned, how the risks are evaluated and their execution of audits. The Committee noted that all plans clearly identified the project's context, audit objectives and methodology to be followed and resources required.

28. In relation to delivery of results in relation to the biennial work plan, the IOAC noted that of the total 23 engagements planned for the biennium 2022–23, 16 had reports issued, 3 more are in process and 4 are carried forward to 2024. Of particular interest was the December 2023 Report on External Collaboration Contracting. The first two recommendations which relate to unclear accountability of the process and the potential reputational risk of not implementing proper labour standards are key and should be prioritized by management.

29. The Committee also reviewed the updated risk assessment and resulting 2024–25 biennium audit work plan. The quantitative and qualitative risk assessments and risk maps demonstrated how the key operational areas are selected for audit. The nine field audits, six thematic audits and three IT audits included in the work plan are all supported by this robust risk assessment and are supported by the IOAC. The IOAC was also pleased to note the expanded key performance indicators (KPIs) identified and look forward to being provided a regular update against them.

30. On the administrative side of the internal audit team, the Committee supports the introduction of a principal audit level in order to facilitate a more timely clearance of reports and to provide dedicated oversight that ensures adherence to standards in the work undertaken.

▶ **Recommendation 4** (2024)

> Management should prioritize the actions plans to address the IAO recommendations in the Report on External Collaboration Contracting that may have an impact on the reputation of the ILO.

Investigations

31. The Committee was provided with ongoing updates on the work being done by the investigation team in the IAO. The Committee noted that 80 cases were closed in 2023 and an additional 12 cases were awaiting clearance or reporting. The remaining caseload at 31 December 2023 was 80 compared to 81 in the previous year. The IOAC was pleased to note the use of an external partner on investigation work as well as increased forensic analysis with the help of IT staff. These additional resources help address the ongoing staff need to address the caseload and should be continued in order to ensure that the ILO maintains a culture where reporting wrongdoings is encouraged, and visible action is taken to address the issues in a timely manner.

32. As reported in 2022, an overview of the processes in place for handling cases of wrongdoing at the ILO had been requested by the Committee and completed by management. The IOAC was pleased to note that the flowchart was finalized and has been made public on both the ILO public website and the intranet site since May 2022.

33. As a continuation of this emphasis on transparency, the Committee is encouraging management to improve the reporting of outcome of allegations. Such reporting provides evidence to stakeholders that allegations are addressed and that there are consequences when allegations are found to be substantiated. Examples in other UN organizations include also disclosing any interim measures taken before a sanction is imposed at the end of the investigative process as well as a dashboard of cases opened and under current investigation.

▶ **Recommendation 5** (2024)

> Management should improve the extent and timeliness of the reporting of the progress being made and final actions taken related to all allegations of wrongdoing while maintaining confidentiality when appropriate. The transparency and accountability demonstrated in this type of reporting would encourage a supportive culture of reporting wrongdoings.

Ethics

34. The Committee met with the Ethics Officer throughout the year. The IOAC discussed the increasing demand as it related to ethics advice requests – an increase from 40 in 2021 to 174 in 2023 – and its impact on the 2023 work plan. The Committee was pleased with the completion of the ethics survey, the annual report to be submitted to the Governing Body, the updated financial disclosure system building awareness and training of staff.

35. The Committee noted that the Ethics Officer has been the ILO focal point for the implementation of the UN–ILO action plan on the prevention and response to sexual exploitation and abuse (PSEA) since July 2022. As indicated in the Officer's annual report, responsibilities falling upon the PSEA focal point often go beyond the ethics mandate as they concern compliance and operational tasks. In addition, the Ethics Officer has committed most of the funds available to the Ethics Office in 2023 and 2024 to engage the support of a PSEA specialist.

36. The IOAC is concerned that resources needed to adequately resource and manage the PSEA action plan may not have been appropriately evaluated when determining the budget for the Ethics Office. Additionally, it is not clear that having the Ethics Officer as the focal point for the implementation of the PSEA action is appropriate. To further complicate a complete understanding of the management of the interrelated issues, HRD has been the department assigned accountability for harassment allegations.

▶ **Recommendation 6** (2024)

> The IOAC recommends that management assess the appropriateness of having the Ethics Officer as the ILO focal point for the action plan on the prevention and response to sexual exploitation and abuse. Concurrently, a review of the appropriate budget and resources needed to complete the action plan should be carried out, as well as a review of the appropriate focal point to be assigned.

External Auditor

37. As previously mentioned, the Committee met regularly with the External Auditor to discuss the plans and results of their work at the ILO. The Committee was pleased to note the unmodified opinion the ILO received on the 2022 Financial Statements. In relation to the 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 the operations of ACT/EMP, ACTRAV, procurement management and operations in field offices.

38. The Committee emphasizes its support of the recommendations made to highlight the visibility of the Bureaux within the ILO and to strengthen the control environment in the field offices.

39. In respect of the External Auditor's review of procurement management, the Committee encourages management to fully integrate the electronic applications involved in order to improve strategic and tactical decisions. Please note recommendation 1 above relating to the External Auditor's recommendations.

Evaluation Office

40. The Committee met with the Director of the Evaluation Office and discussed the new strategy developed for the 2023–25 period, as well as the Annual Evaluation Report 2022–23 that was presented to the Governing Body. Of particular interest to the Committee was the goal of enhancing the evaluation systems and processes to result in more credible, strategic and higher-quality evaluations.

41. In-depth discussions were held with the Director on how the coordination of the various oversight functions within the ILO is operating. The IOAC was pleased to note the increased communication and knowledge sharing between Evaluation and the Internal Audit offices. The IAOC encourages continued efforts in this area among all oversight functions and will continue to monitor progress being made.

IV. IOAC internal governance

A. Follow-up on past recommendations

42. The Committee received an update from management on the four recommendations made in its 15th annual report. The Committee has noted that two of the recommendations made have been fully implemented: completing the action plans mentioned in the Annual Statement of Internal Control and ensuring there is adequate staffing in place in the Investigation and Inspection Unit of the IAO.

43. For the recommendation to implement the External Auditor's recommendations related to the implementation of outcomes 6 and 7 of the 2020–21 Programme and Budget, implementation agreements and controls at the country office level, management provided an update that 15 out of 20 have been fully implemented and the remaining 5 are partially implemented or are in progress of being implemented.

44. For the recommendation that the skills mapping exercise for the priority groups should be completed in 2023, the Committee was provided an update in January 2024 and noted previously that the deadline for completion has been deferred until 2024.

B. Rotation of Committee members and identification of qualified candidates

45. In line with the terms of reference, a number of Committee members will be completing their maximum terms at the end of 2024 and will require replacement. In order to ensure a timely nomination of new qualified candidates, we encourage management to initiate the recruitment process as soon as possible.

46. Additionally, as was done for the 2022–24 candidates, it is recommended that the list of potential candidates be shared with the Committee for evaluation. The Committee's role will be to provide advice on any key competencies needed to be supplemented and the best candidates to meet those required competencies.

47. The Committee has noted that the mandatory rotation of three of five members at the end of this year may result in some gaps in a seamless transfer of knowledge with the committee. As part of our 2024 work plan, the Committee members will review the terms of reference and provide any advice or recommended changes to ensure the continuity of each area of expertise required by the Committee for the Governing Body's consideration at its 350th *bis* Session in June 2024.

C. Peer review follow-up

48. The IOAC, with ILO management, agreed to participate in a pilot project of the peer review process in 2022. A three-member team of Chairpersons/former Chairpersons from other UN system oversight committees completed this independent review and assessment of the functioning of the IOAC in relation to its terms of reference and identified best practices within the UN.

49. In our 2022 report, we outlined the identified opportunities for improvement and committed to reporting back to the Governing Body on the progress being made against them.

50. The IOAC is pleased to report that a number of these have already been or will be implemented. Namely:

    (a) holding at least one meeting in a regional office combined with project visits;

    (b) the practice of an annual informal exchange with the Governing Body to discuss more strategic issues;

    (c) identifying the relevant expertise required on the IOAC and ensuring it is provided, as needed;

    (d) visiting field offices outside of the regional offices to allow for a better appreciation of challenges and risks being faced.

51. The recommendations for improvement that have not been implemented include the following:

    (a) The IOAC and EVAL office should hold a joint discussion on work plans and results between the different oversight functions and to consider such engagement in the spirit of increasing the efficiency and effectiveness of all oversight functions.

    (b) Identify opportunities to better socialize, promote and explain the value added of the IOAC to the ILO's management and Governing Body.

    (c) The IOAC may wish to work on an annual communications strategy with the secretariat and identify opportunities for highlighting the work and role of the Committee beyond the annual report and official meetings with the Governing Body.

D. Self-assessment and stakeholder feedback

52. The Committee conducted its annual self-assessment in December 2023. A survey of ILO management was also undertaken at the same time to evaluate the Committee's perceived value added, efficiency and effectiveness. Overall, the operations of the Committee were evaluated as meeting or exceeding expectations. Some changes will be implemented in the current year in order to address the most efficient use of the time members have to address all aspects of the IOAC's mandate.

E. Work plan 2024

53. Looking ahead to the Committee's work in 2024–25, the preliminary focus will continue to be on the following areas of its mandate: financial statements and external audit; internal audit and investigations; risk management and internal controls; ethics; and compliance and probity. The Committee will focus its efforts on areas identified as needing improvement by following up on progress made against our recommendations.

54. As noted at the annual meeting of the chairpersons of UN System Oversight Committees, as well as in comments from the management survey, visiting offices outside of headquarters is considered a best practice to adequately understand the operational risks of an organization. The IOAC would continue this practice when practicable. For 2024, the plan is to visit the Turin Centre as part of one of our regular meetings.

Geneva, 6 February 2024 *(Signed)* Ms Marian McMahon FCPA,FCA
Chairperson