



Governing Body

312th Session, Geneva, November 2011

GB.312/PFA/10

Programme, Financial and Administrative Section
Audit and Oversight Segment

PFA

TENTH ITEM ON THE AGENDA

Review of the Independent Oversight Advisory Committee (IOAC)

Overview

Summary

This document reports on the conclusions of the review of the Independent Oversight Advisory Committee and proposes the next steps relating to the continuity of this advisory body.

Policy implications

None.

Legal implications

None.

Financial implications

None at this stage. Once decisions are made on the detail of the terms of reference, any financial implications will be identified and submitted to the Governing Body for its consideration.

Decision required

Paragraph 8.

Follow-up action required

Continued consultations between the Governing Body members to agree on the selection process and the terms of reference.

Author unit

Treasurer and Financial Comptroller (TR/CF).

References to other Governing Body documents and ILO instruments

GB.300/PV, GB.301/10/1(Rev.).

1. At its 300th Session (November 2007), the Governing Body decided to establish an Independent Oversight Advisory Committee (IOAC) for a four-year trial period.¹ The Committee was appointed at the 301st Session (March 2008) of the Governing Body² and its mandate will end following its next meeting in January 2012.
2. In establishing the IOAC, the Governing Body requested the Director-General to commission a review of the IOAC during its third year of operation.³ An independent consulting firm was commissioned to undertake the review and the full text of the final report is available on the ILO website.⁴ The Officers of the Governing Body, Regional Coordinators and the Employers' and Workers' groups were advised of the availability of the report in early July 2011 and invited to informal consultations on the consulting firm's recommendations on 28 September 2011.
3. The consulting firm's conclusions were:

... that independent oversight and advisory committees play an increasingly important role in strengthening and sustaining effective and objective oversight of publicly-funded international organizations and the ILO is no exception. The ILO took an important and positive step in setting up the IOAC on a trial basis and there is general appreciation of the existing "trial-period" committee which has already begun to make some important positive impacts. In our view, these impacts can be improved to add further significant value to the existing oversight practices within the ILO and we have provided specific recommendations in this report on how this can be achieved in the future.

... the IOAC should continue and that the trial phase should move into permanent establishment and that clear priority is given to the next IOAC member selection process to ensure that the ILO has the best available professional platform of quality and committed members to build an even more effective committee that adds significant value.⁵
4. The review reports in detail on the mandate of the IOAC, its composition, meeting frequency, resources and added value. It also provides commentary on practices in other United Nations organizations.
5. The appendix to the present document reproduces the consulting firm's recommendations and adds brief comments from the Office.
6. At the informal consultations, Governing Body members indicated that further time was required to consult with capitals and within their respective groups prior to further discussion on the specific recommendations contained in the review's report. It has not therefore been possible to present to this session of the Governing Body draft terms of reference that would be likely to find consensus. The guidance of the Governing Body is sought on the recommendations from the review.
7. However, on the basis of the consultations undertaken since the publication of the review's report, it is proposed that the IOAC be established as a permanent advisory body reporting to the Governing Body, responsible for providing expert advice on accountability and

¹ GB.300/PV, para. 285(a).

² GB.301/10/1(Rev.).

³ GB.300/PV, para. 285(b).

⁴ www.ilo.org/public/english/edmas/ioac/downloads/pwc_ilo_ioac_final_report_20110525.pdf.

⁵ PricewaterhouseCoopers (PwC): "Overall conclusion", *International Labour Organization Independent Oversight Advisory Committee (IOAC) Review* (Geneva, May 2011), p. 4.

governance issues. It is also proposed that the mandate of the existing members of the IOAC be extended under the same terms and conditions until the end of the 315th Session (November 2012) of the Governing Body. This would ensure continuity of the work of the IOAC while allowing Governing Body members to pursue their consultations on revised terms of reference to accommodate the expectations of all parties.

8. *The Governing Body may wish to decide to:*

- (a) establish the IOAC as a permanent advisory body reporting to the Governing Body;***
- (b) extend the mandate of the current five members of the IOAC until 16 November 2012 under the existing terms of reference as approved by the Governing Body at its 300th Session (November 2007); and***
- (c) request the Director-General to continue to facilitate informal consultations in order to make proposals on:***
 - (i) the selection process for membership of the IOAC to the 313th Session (March 2012) of the Governing Body; and***
 - (ii) the revision of the terms of reference of the IOAC, no later than at its 315th Session (November 2012).***

Geneva, 3 November 2011

Point for decision: Paragraph 8

Appendix

Recommendation No.	Consulting firm's recommendations	Office comments
1.	<p>The IOAC should continue beyond its trial period becoming a permanent committee reporting to the ILO PFAC and advising the Director-General.</p> <p>Concern has been expressed that an independent oversight committee would duplicate the activities of existing oversight and audit functions such as the Internal or External Auditor; both of which have operational responsibilities. However, from a practical perspective, the Internal Auditor, the External Auditor and the independent oversight committee all perform very different roles and mandates, and there is a strong agreement among stakeholders that the IOAC should continue, but with a revised terms of reference, a more transparent and wider selection process, and several other operational improvements outlined later in this report.</p>	<p>The Office takes note of the recommendation and the value that such a committee could bring to the governance of the Organization.</p>
2.	<p>The current IOAC terms of reference need improvement.</p> <p>The terms of reference should be broadened in alignment with the evolved best practices in the UN system and elsewhere. We specifically recommend that the objectives of the IOAC include clear reference to review of internal audit budget and resources as well as the quality and effectiveness of their work, reports and recommendations. They should also have a timelier and more focused additional opportunity to review the proposed work and coverage of the External Auditor including, when this occurs, their appointment plus their annual audit plans in addition to their reports and recommendations. This should include an increased amount of challenging ILO management to respond and implement audit recommendations as well as challenging internal and external audit on the quality of their recommendations. This is an important balance which can only be achieved over a prolonged period of familiarity and will be of benefit to the Organization as a whole. The existing focus on management's responsibility for risk management and internal controls should be maintained. The IOAC should also be consulted in the selection process of the Chief Internal Auditor to secure the qualifications, independence and objectivity of that function.</p>	<p>Subject to decisions the Governing Body may take on the recommendations, the Office is of the view that the terms of reference may need some amendments.</p> <ul style="list-style-type: none"> – The current terms of reference are sufficiently broad to include consideration of the Internal Audit Office budget and resources as well as the quality and effectiveness of its work, reports and recommendations. The IOAC has considered all of these elements during its current mandate. To improve clarity, specific reference could be made to these responsibilities in amended terms of reference. – The IOAC's review of the work of the External Auditor has been retrospective due to the timing of its meetings. Subject to the Governing Body's decision on an additional sitting of the IOAC, there should be no difficulty in ensuring additional focus on external audit matters. – Article 4.2(d) of the ILO Staff Regulations establishes the procedure and responsibilities for the appointment of the Chief Internal Auditor. Should the Governing Body decide that prior to the appointment the Director-General should consult the IOAC or, alternatively the Officers of the Governing Body, as for other senior appointments, amendments to the Staff Regulations could be proposed.

Recommendation No.	Consulting firm's recommendations	Office comments
3.	<p>The selection process of IOAC members needs to be expanded and more transparent.</p> <p>In order to maximize benefit for the ILO, members of the IOAC should be sought from the widest possible pool as possible, with a variety of expertise, and they should be highly committed to the duty and willing to actively engage in the Committee's work. A preference for seeking candidates based on relevant professional skills ensures that the Governing Body receives the best professional advice on oversight matters of concern to the Organization. To optimize applications from the best candidates, ILO Governing Body representatives should nominate suitably qualified candidates. Placement of advertisements in appropriate international publications or magazines is strongly recommended. Based on recent successful experiences with other UN entities, we recommend that advertisements be placed in professional magazines and newspapers, such as <i>The Economist</i> and <i>Le Monde</i>. All candidates, whether put forward by the Governing Body or direct applicants, should be considered equally, based on the aforementioned criteria. Although there are many competing arguments for the various criteria that could be applied to the selection of IOAC members and we recognize that this can be a sensitive issue, it is our judgment that members should be selected primarily for their professional talents and experience to serve on an oversight committee of a large international organization. Consideration of geographical representation, gender and any other characteristics should be secondary.</p>	<p>The Office supports the recommended focus on qualifications and experience as well as a more open recruitment procedure. An external consultancy firm could be engaged to receive and filter candidates, presenting a maximum of ten names to a selection committee comprising the Officers of the Governing Body (or their nominees) and the Director-General. The selection committee would then present a proposed list to the Governing Body for decision.</p>
4.	<p>The term and renewal of appointment of individual members serving on the IOAC should be reviewed.</p> <p>Based on acceptance of the earlier recommendation that the IOAC should be made a permanent committee, it is important that the term of office of the IOAC members be reviewed to optimize the contribution, effectiveness and continuity of all members – both individually and as a collective body.</p> <p>After serving one term, members should also be given the opportunity to renew for one further term – but no more. Also, by having the term limit for two of the five members expiring in a different year to the other three, continuity and efficiency are also optimized.</p> <p>Based on good practice including other examples within the UN system, we recommend that ILO adopts one of the following options. Both can work effectively:</p> <p>Option 1 – four-year term Each member eventually serves a term of four years, optionally renewable once. However, for the next (or first) term, two of the five members will only serve for one term of two years. Going forward, every two years, there will be a further selection process for either two or three members.</p> <p>Option 2 – three-year term Each member eventually serves a term of three years, optionally renewable once. However, for the next (or first) term, two of the five members will only serve for one term of two years. Going forward, every second and third year, there will be a further selection process for, respectively, either two or three members.</p>	<p>The Office is of the view that option 2 is the better one. This would provide for a maximum period of service of six years (three years renewable once). The Office would further propose that two of the current members be appointed for a further two years to provide some continuity with the new IOAC.</p>

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5.	<p>A third IOAC meeting should be added every year with a special focus on the annual financial reporting and external audit issues.</p> <p>There is already evidence of an excess workload building up for the IOAC. Current members do not always have the necessary time in meetings to deal adequately with all matters which would potentially benefit from their attention. Also, the current timing of the IOAC meetings is not optimal in order for the IOAC to have sufficient impact on the outcomes of the annual external audit process, which is a critical part of their formal responsibilities. Adding a third meeting before the Governing Body Conference in June would allow the IOAC to bring an additional added value to the ILO with the review of the ILO financial statements and External Auditor's report issued in May. Currently, the IOAC is meeting in February and September with minimal "off-site" work in between sessions, which makes it difficult for the IOAC to produce timely comments on financial statements and external audit issues.</p>	<p>A meeting in late-May would allow the Governing Body to benefit from the IOAC's expert review of the financial statements and the External Auditor's report. Logistical and capacity considerations would make it unlikely for a written report of the meeting to be prepared, translated and distributed to the Governing Body by the first week of the annual International Labour Conference. Therefore, the IOAC Chairperson would be required to present an oral report to assist the Governing Body in its consideration of the financial statements and the External Auditor's report.</p>
6.	<p>Support to the IOAC should be improved by creating a part-time P-level post, dedicated to oversight committee matters.</p> <p>Currently, the IOAC budget includes 50 per cent of a secretarial or General Service-level post. In order to both improve the quality and quantity of relevant information made available to the Committee as well as providing much needed support in follow-up reporting of the Committee's activities, we recommend that this level of support is maintained but replaced to a P-level resource (P3 or P4 level) to enable the Committee members to work more efficiently and further improve the quality of the IOAC work. We believe that such a support would help the IOAC ensure a continuous high-quality work in an environment where the financial reporting as well as the assessment of risks faced by the Organization and related internal control are gaining in complexity.</p> <p>Current secretarial support is provided from the Treasurer and Financial Comptroller's office and we consider that this should continue, although at a much reduced level, such as 10 per cent, but this office should be supported by 50 per cent of a P-level person with an appropriate oversight/audit/finance background. Such a person should be able to work independently and have direct access to the Committee Chair and its members.</p>	<p>The Office supports this recommendation. Currently, significant resources have been diverted from other management and administrative tasks to support the work of the IOAC. An appropriate level of resources is required if the IOAC is to receive the required support whilst not diverting resources from other management and oversight responsibilities.</p>
7.	<p>One IOAC meeting every two years should be held in a regional or country office.</p> <p>In order to improve the visibility of the IOAC for the field operations as well as provide the opportunity for IOAC members to learn and be able to challenge the activities and results of ILO operations around the world, one meeting every two years should be scheduled in a regional office. We recommend a meeting every two years instead of every year in order to limit the costs of ILO officials travelling to attend the meeting. Assuming that a reasonable level of geographical representation of IOAC members is maintained with two management representatives attending such a meeting, the incremental costs should not be superior to 10,000 Swiss francs.</p>	<p>The Office agrees that meetings in regional locations would increase the visibility of oversight activities and the understanding of IOAC members of the work of the Office.</p>

Recommendation No.	Consulting firm's recommendations	Office comments
8.	<p>Make the selection of IOAC chosen focus areas and meeting agenda items more apparent within the ILO.</p> <p>In order for the Organization to gain an understanding of the work and prioritization related to the ILO's specific needs, the IOAC should explain, communicate and document clearly why specific topics are prioritized (e.g. training). This is crucial for the IOAC to demonstrate that the topics chosen are in line with the current developments and risks faced by the ILO. In order to do so:</p> <ul style="list-style-type: none"> – A stable process should be put in place in order to ensure to systematically identify development and sensitive topics throughout the year. – Support from a technical specialist should be consulted in order to ensure proper response to IOAC requests and preparation of related analysis. (Refer to recommendation No. 6.) This would sustain the improvement of the perception by member States, as the IOAC would be seen as fulfilling their oversight responsibilities in addition to better understanding the topics being covered. 	<p>IOAC members are and should be selected based on their expertise and independence. As such, they should exercise their judgment in selecting topics within the Committee's terms of reference for consideration. The terms of reference should provide clarity as to topics to be considered systematically, with flexibility to focus on other topics as appropriate. During the presentation of the IOAC's report to the Governing Body clarification on priorities could be sought, if necessary.</p>
9.	<p>Consider requesting that future IOAC members share a common working language as a required competency in order to facilitate the productivity and interactions of the Committee.</p> <p>With five members, the IOAC is a relatively small body and should be expected to work in a highly productive and efficient manner in order to maximize its value to the ILO. However, it is recognized that provision of translation services depends on the working language capabilities of its current and future members. As well as the productivity impacts, there is a significant cost impact of providing translation services. Experiences in the majority of other oversight committees in the UN system is that most of them are able to operate with a common language and no translation services are required.</p> <p>Recognizing that this can be a sensitive issue and that there are pros and cons to the discussion, it is recommended that, in selecting future members for the IOAC, the previously recommended criteria are still fully respected but that additional consideration is given to sustaining a Committee that is able to operate in one common language, thus improving productivity and releasing budgeted amounts for other positive purposes. This is also a reasonable expectation for such a small professional body.</p>	<p>Although recognizing the budgetary implications and operational efficiency of a single language, the ILO is an international organization with three working languages; hence suitably qualified and experienced candidates working in any of the three working languages should be considered.</p>
10.	<p>In the future, the IOAC could further enhance its value by including a review of activities and performance of the ILO's evaluation function as part of its terms of reference, after selecting candidates with suitable experience.</p> <p>Oversight committees are often initially viewed as just reviewing the financial performance and internal controls of an organization. These activities are and should remain a key focus and yet, the value and experience that individual members bring could include reviewing and advising the Governing Body on the staffing, resources and performance of the Organization's evaluation function. However, in the current situation with the IOAC, we recommend that this be regarded as a medium-term goal of the IOAC to be adopted during the next three to five years.</p>	<p>The Office concurs with the recommendation that in the first instance the IOAC's work should be focused on delivering its core mandate to the full satisfaction of the Governing Body before expanding its role into new areas.</p>

Recommendation No.	Consulting firm's recommendations	Office comments
11.	<p data-bbox="439 252 622 276">Financial aspects.</p> <p data-bbox="439 288 1375 373">The increased cost per biennium of a revised IOAC meeting three times per year, working in a single language with re-profiled support would have amounted to some US\$56,000 in 2010–11 terms. These calculations have assumed a similar geographical membership as the current Committee.</p>	<p data-bbox="1473 252 2092 517">No provision has been made in the Programme and Budget for 2012–13 to cover the increased cost of implementing all of the recommendations. If a full three language option was required, and the other recommendations were fully accepted, the total incremental cost over the amount currently provided for in the Programme and Budget for 2012–13 would be some US\$100,000. Financial arrangements would have to be provided to cover any incremental cost, possibly from the provision for unforeseen expenditure.</p>

