



## Governing Body

320th Session, Geneva, 13–27 March 2014

GB.320/PFA/11

Programme, Financial and Administrative Section  
*Audit and Oversight Segment*

PFA

Date: 12 February 2014

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### ELEVENTH ITEM ON THE AGENDA

## Report of the Independent Oversight Advisory Committee (IOAC)

#### Purpose of the document

This paper transmits the 2014 report of the Independent Oversight Advisory Committee, for debate and guidance.

**Relevant strategic objective:** Not applicable.

**Policy implications:** None.

**Legal implications:** None.

**Financial implications:** None.

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

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

**Related documents:** GB.316/PFA/6/1; dec-GB.316/PFA/6/1; GB.316/PV(&Corr.), para. 650; GB.317/PFA/8.

- 1.** In accordance with its terms of reference <sup>1</sup> the Independent Oversight Advisory Committee (IOAC) met in Geneva from 29 to 30 May 2013, from 25 to 27 September 2013 and from 27 to 29 January 2014.
- 2.** The members of the IOAC are:
  - Mr Luis Guillermo CHINCHILLA (Peru)
  - Ms Eileen Skevin FUSCO (United States)
  - Ms Bushra Naz MALIK (Pakistan)
  - Ms Hilary WILD (United Kingdom)
  - Ms Jeya WILSON (South Africa)
- 3.** The Director-General herewith transmits the report of the Committee to the Governing Body for its consideration.

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

## Appendix

### **Report of the Independent Oversight Advisory Committee (Sixth annual report)**

1. The Independent Oversight Advisory Committee (IOAC) is pleased to present its report on the first full year of operation under the revised terms of reference approved by the Governing Body in November 2012. This report covers the work of the Committee from May 2013 to January 2014, during which time the Committee met three times in Geneva from 29 to 30 May 2013, from 25 to 27 September 2013 and from 27 to 29 January 2014. All meetings were quorate and all members affirmed that their signed declaration of independence remained valid.
2. In light of the experience gained over the year, the Committee has initiated a process of self-assessment so that it may further consider how to best fulfil its role as an independent oversight advisory body in reviewing the effectiveness and complementarity of the Office's internal and external audit functions alongside its risk management functions in order to provide appropriate advice. The Committee has developed a standing agenda based upon the terms of reference that will guide its work to ensure that all aspects of its responsibilities are comprehensively covered.
3. The Committee wishes to record its appreciation for the insightful contributions made to its work by Mr Denys Chamay, who ensured the Committee's smooth transition from the old terms of reference to the revised terms of reference. It was thus with great sadness that the Committee heard of his untimely death. Ms Eileen Fusco (United States), who replaced Mr Chamay, attended the meeting held between 27 and 29 January 2014.
4. During its meetings, the Committee met with senior ILO officials, including the Director-General, the Deputy Director-General for Management and Reform (DDG/MR), the Treasurer and Financial Comptroller, the Director of the Strategic Programming and Management Department (PROGRAM), the Director of the Human Resources Development Department (HRD), the Chief Internal Auditor (CIA), the acting Director of the Internal Services and Administration Department (INTSERV), the Director of the Information and Technology Management Department (INFOTEC), the Director of the Partnerships and Field Support Department (PARDEV), the Director of the Evaluation Unit (EVAL) and the Ethics Officer, to follow up on matters discussed at its previous sessions and to receive information on items within the Committee's mandate.
5. The Committee met with representatives of the External Auditor, the Auditor General of Canada, at its meetings in May and September 2013. During the Committee's September session, it also met informally with Members of the Governing Body to provide an opportunity to discuss the work of the Committee.

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

6. The Committee reviewed the quality and the level of financial reporting, particularly in relation to audited financial statements. As reported to the Governing Body in June 2013, the Committee had reviewed the financial statements for 2012 in a meeting with the External Auditor and senior ILO finance staff. This provided the Committee with the opportunity to confirm to the Governing Body that the independence of the External Auditor had not been compromised.
7. Discussions focused on the presentation of the figures, notes and complementary analytical reporting by the Office. The Committee also notes that while the Office has successfully implemented the International Public Sector Accounting Standards (IPSAS) and produced

audited financial statements in accordance to these, there is room to improve the use of IPSAS and the Committee recommends that the Office consider developing a more comprehensive approach to financial reporting. While the financial statements comply with IPSAS, the budget preparation and presentation is based on the requirements of the Financial Regulations. The financial report contains a complex reconciliation between budget and actual figures and the Committee believes that this reconciliation process can make the financial report less accessible to non-accountants and consumes staff and audit time. The Committee recommends that the Office look into ways to avoid this reconciliation, enabling the comparison of actual and budget figures to be more easily assimilated by stakeholders as they evaluate how funds have been used and what has been achieved against agreed plans.

8. The Committee reviewed the presentation of the After Service Health Insurance liabilities and discussed the issue of unfunded liability. The Committee continues to advise that this liability should be funded, given that the ILO's mandate includes the promotion of a high standard of employment conditions. The Committee has been briefed by the Office on the useful steps already being taken to reduce the level of the unfunded liability, *inter alia*, by ensuring that all funding sources provide the appropriate fund contribution levels for staff employed on projects. The results of an actuarial study and further proposals to reduce unfunded liability will be reviewed by the Committee at its meeting in May 2014, after which the Committee will report further on this subject. In the meantime, the Committee continues to advise that liability should be fully funded over an appropriate period of time and that the Office, together with the Governing Body, should continue to implement measures to achieve this goal.
9. The Committee notes that new IPSAS standards relating to financial instruments will be applied to the 2013 financial year. The application of these standards will be reviewed by the Committee at its meeting in May 2014.

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

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

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

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

## ***Accounting policies and standards***

10. In exercising its responsibility to advise the Governing Body and the Director-General on the appropriateness of accounting policies, standards and disclosure practices, the Committee is pleased to report that, apart from the recommendations above, there is nothing that it wishes to draw attention to. The Committee will present an oral report on these matters in May 2014.

## ***External audit scope, plan and approach***

11. The Committee reviewed the scope, plan and approach of the External Auditor's work at its meeting in September.
12. The Committee held a private session with the representatives of the External Auditor that enabled a discussion of areas of mutual interest and the development of a working relationship. This is a valuable mechanism, practised across the United Nations system, to ensure that if there are any concerns regarding the working relationships between the External Auditor and the Office of Internal Audit and Oversight (IAO), these can be raised by both parties in an open and frank manner. We are pleased to report that the working relationship between the Office and the External Auditor appears to be effective and constructive.
13. Under its terms of reference, the IOAC may be requested by the Governing Body to provide advice on the appointment of the External Auditor. The Committee confirms that it is willing to provide such advice, as outlined in document GB.320/PFA/8, paragraph 4. Furthermore, should the Governing Body wish to request that a member of the Committee be made available to advise the selection panel on any technical issues, the Committee stands ready to do this. The Committee, as a technical advisory committee, is fully cognisant of the need to avoid the perception of any potential conflicts of interest so that the integrity of the process is maintained.

## ***Internal audit scope, plan, resources, performance and independence***

14. The Committee met with the CIA in each of its meetings, including in a private session. The Committee reviewed the scope, plan and resources of the Internal Audit and found that the scope and plan were well conceived, having been prepared on the basis of a thorough risk assessment. The Committee also reviewed the resources required to deliver the plan and, noting that additional financial resources have been made available to the IAO in response to requests from the CIA, the Committee advises the Director-General to continue to ensure that adequate resources are made available to implement the plan in full. The availability of adequate resources is a measure of the independence of the internal audit function. The Committee has no concerns regarding the level of independence of the function. Regarding the performance of the internal audit function, the Committee notes that the 2013 plan will be delivered, for the most part, notwithstanding some adjustments to the original plan approved by the Director-General. The Committee was informed of the reasons for these adjustments, which it found to be valid and appropriate, such that the CIA was able to provide the Director-General with a reasonable level of assurance.
15. The Committee also noted that the incidence of allegations of fraud or other malpractice has increased and that this has imposed an additional workload on the unit. Resource requirements can be hard to predict, as the nature of investigation work is contingent on circumstances and unpredictable in itself. This can make it difficult to determine the appropriate level of resources for the investigation unit. The Committee highlights the importance of adequately resourcing this function within the IAO, as the consequences of delays in carrying out investigations are two-fold. Firstly, they make it harder to carry out

an effective investigation; and, secondly, the timely investigation of allegations of fraud or malpractice acts as a deterrent to potential fraudsters.

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

### **Risk management and internal controls**

16. The Committee was briefed on the decision of the Director-General to establish a risk management function (headed by a Senior Risk Officer). The Committee considers that this is an important first step in establishing a robust risk management framework across all aspects of the Office's work. In this regard, the Committee notes that there are many enterprise risk management (ERM) approaches, and the Committee advises the Director-General to implement an ERM approach that can be integrated into Office management practices as this will assist compliance and avoid an unnecessary duplication of effort, given that risk management is already inherent in the work of the Office.

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

17. Internal governance practices in the Office have undergone significant improvement with the establishment of an Information Technology Governance Committee (ITGC). The IOAC notes that a significant amount of preparatory work has been carried out that will support the effective operation of the ITGC. However, the Committee has yet to meet and thus the IOAC advises the Director-General to take steps to ensure that this new Committee meets regularly and establishes a workplan that will guide it in addressing the demands made of the Office in the management of IT, as this is an area is of crucial importance to the Office while the range of IT risks to which the Office is exposed is increasing.

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

18. The completion of the Field Operations Review will provide an opportunity for the Office to review the IRIS roll-out strategy. The Committee believes that this is a valuable opportunity for the Office to consider how to use IRIS to further strengthen internal controls and governance in all field offices based upon any new business model for field operations. The present IRIS roll-out strategy is incremental, which the Committee understands is related to resource availability. The Committee appreciates that the Office is taking this approach and notes that there are significant benefits to be derived by the Office in terms of improved internal control and internal governance through the implementation of IRIS, or an adapted version for smaller offices. This should be part of the cost–benefit analysis of the field roll-out strategy, which should incorporate the results of the Field Operations Review.

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

### **Compliance and probity**

19. The Committee has reviewed the Office's internal governance and probity systems, and considered how these support compliance with regulations, policies and high standards of integrity, and the clear definition and proper implementation of ethical conduct. The Committee was pleased to hear that steps had been taken to make annual procurement declarations applicable to officials beyond headquarters.
20. The Committee followed up on the implementation of its previous recommendations. The results are summarized in the annex.
21. The Committee has also reviewed the status of implementation of both internal and external audit recommendations, and notes that implementation memoranda have been prepared and that follow-up by the Office of the Treasurer and Financial Comptroller has continued.

Geneva, 10 February 2014

(Signed) Ms H. Wild  
Chaiperson

## Annex

### Prior IOAC recommendations

1. In its report to the Governing Body in March 2013,<sup>1</sup> the Committee reported on its 2012 recommendations. In 2013 the Committee continued to follow up on the implementation of any outstanding 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.**

**Recommendation 3 (2012): The Committee further recommended that the Office consider implementing an integrated IT solution for skills mapping (IRIS, Job Shop and Learning Management) to support the initial collection and ongoing maintenance of skills data.**

2. The Committee noted that substantial progress has been made in implementing these two recommendations and is satisfied that management will take the necessary steps to complete their implementation.

**Recommendation 5 (2012): In order to further improve quality and timeliness of implementation of the internal audit recommendations, the Committee recommended a formal sign-off of the Implementation Report by the Executive Director or Regional Director of the audited unit.**

3. The Committee noted that responsibility for Implementation Reports was clearly established as resting with the Executive Directors (now Deputy Director-Generals) and Regional Directors and that, although not formally signed off, they were being submitted in the name of the responsible official.

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

4. The Committee noted that there was some improvement in the development of Implementation Reports and that the targets established for the implementation of recommendations for 2014–15 had been reduced, as described in the Programme and Budget for 2014–15. The Committee will monitor this situation in 2014.

5. The Committee made a number of recommendations in 2013. Their implementation status is as follows:

**Recommendation 1 (2013): IRIS should have a business owner/champion. The Committee recommends that the Office consider appointing the DDG/MR to this role.**

6. The Committee noted the confirmation provided to the Governing Body at its 317th Session (March 2013) that the DDG/MR was the business owner for IRIS.

**Recommendation 2 (2013): Management reform includes establishing priorities, assigning resources and managing projects. The Office should consider implementing an internal management process to facilitate realistic resourcing and planning for all reform projects, with a focus on identifying consequences of delays and conflicting priorities. These projects should be budgeted so that adequate resources are available to implement the project according to the approved project plan.**

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<sup>1</sup> GB.317/PFA/8.

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7. The Committee notes with satisfaction that the Office considers that all reform, study, review and implementation activities have been and will continue to be undertaken within the limits of available resources and that specific teams consisting of staff and professional independent consultants are established where appropriate. The Committee notes that the Office considers this to be a realistic and economic manner of proceeding. The Committee will continue to follow the progress of the Management Reform agenda, paying particular attention to any risks related to implementation.

**Recommendation 3 (2013): The Director-General should consider where to place responsibility for managing enterprise risks, including business continuity management, in order that enterprise risk management receive the highest visibility. Managing enterprise risk should be adequately resourced with a full-time risk management officer reporting to a senior-level official, who is not the manager of a line unit.**

8. The Committee notes that this recommendation has been satisfactorily implemented with the appointment of a Senior Risk Officer reporting to the Treasurer and Financial Comptroller.

**Recommendation 4 (2013): Given the importance of an effective performance management system (PMS), the Office should consider:**

- (a) **using the PMS for the evaluation of ILO senior officials as a means to set the tone for senior management's commitment; and**
  - (b) **holding all managers accountable for ensuring compliance with PMS deadlines by including appropriate indicators and targets in each manager's performance evaluation.**
9. The Committee notes that the Director-General is considering how to implement this recommendation in the most appropriate way for the Office, and understands that the Office considers that it may be more appropriate to use a modified version of the PMS for senior officials. The Committee considers this to be a valid approach and will continue to discuss the matter with the Director-General.