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Programme, Financial and Administrative Section
Programme, Financial and Administrative Segment

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FOR INFORMATION

Overview of the ILO's auditing and oversight system

Summary: In this paper, the Office presents an overview of the ILO's auditing and oversight system and of the human resources and financial support available to it, for information.

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Related document: GB.332/PV.

1. This document provides “an overview of the ILO’s auditing and oversight system and of the human resources and financial support available to it”, as requested by the Governing Body at its 332nd Session in March 2018¹ in the context of discussions of the report of the Independent Oversight Advisory Committee (IOAC).²

Overall structure of the auditing and oversight system

2. The Office has a comprehensive system, which includes its governance organs, to ensure sound accountability for oversight of its operations. This system is designed around well-established principles and best practices and reflects the “three lines of defense”, a concept endorsed by the United Nations High Level Committee on Management. The first line concerns functions that own and manage risks and controls (“operational management”); the second line concerns functions that oversee risks and controls (“business enabling and control oversight”); the third line concerns functions that provide the Governing Body and senior management with independent assurance of the efficiency and effectiveness of the system of internal control (“independent assurance”). The Governing Body, the Director-General and the Senior Management Team (SMT) occupy an overarching role across all three “lines”, as primary stakeholders serviced by the individual “lines”, and are best positioned to provide leadership in ensuring that accountability is embedded throughout the Office’s risk management and internal control processes. In addition, external lines of defense such as External Audit, the IOAC and the Joint Inspection Unit (JIU), provide additional assurance.
3. In response to the Governing Body’s request, this document will focus on the third line of defense, notably the Office of Internal Audit and Oversight (IAO) and the external lines of defense.
4. The human and financial resources available to each of these functions are presented in the following sections as direct costs which are derived from budget allocations of the 2018–19 biennium. An estimate of indirect costs of each function is also presented reflecting the workload and support associated with each function which are not specifically identified in the programme and budget.

Independent Oversight Advisory Committee

5. The IOAC, as an independent expert advisory body appointed by the Governing Body, reviews the effectiveness of the ILO’s audit, risk management and internal control systems and provides, inter alia, expert advice to the Governing Body and the Director-General on the quality and the level of risk management and internal controls in the ILO. The IOAC presents an annual report containing observations and recommendations for consideration by the Governing Body.
6. The IOAC comprises five members who meet three times per year covering a total of eight working days. It is supported by staff within the Office of the Treasurer and Financial Comptroller (TR/CF). The Office covers the travel costs for IOAC members in addition to a daily subsistence allowance for the period of attendance at regular meetings or when on

¹ [GB.332/PV](#), para. 665.

² [GB.332/PFA/6](#).

other official business. Resources are also made available to meet any linguistic needs as well as the costs of the triennial selection process.

7. The direct human and financial resources in relation to the functioning of the IOAC per biennium are:

Items	Professional (work months)	General Service (work months)	Amount (in US\$)
Staff	12	2.4	282 000
Non-staff:			
– Travel and linguistic services			194 000
– Selection process			141 000
Total per biennium			617 000

8. In addition, senior ILO officials interact with the IOAC regularly during its meetings and/or inter-sessionally. These indirect costs and associated staff time are estimated to amount on a biennial basis to:

Items	Professional (work months)	General Service (work months)	Amount (in US\$)
Staff time	4	N/A	138 000

External Auditor

9. The External Auditor conducts audits in accordance with Chapter IX of the ILO Financial Regulations and the Additional Terms of Reference Governing the External Audit annexed thereto. These audits are conducted in conformity with the Common Auditing Standards of the Panel of External Auditors of the United Nations System. In order to comply with the International Public Sector Accounting Standards (IPSAS), an annual audit is also undertaken by the External Auditor.
10. At its 323rd Session in March 2015, the Governing Body appointed the Chairperson of the Commission on Audit (COA), Republic of the Philippines, as the External Auditor of the ILO for the financial periods 2016–17 and 2018–19. The External Auditor applies a risk-based audit approach in the audit of the ILO's financial statements and provides its Independent Auditor's Report thereon, together with a long-form report, to the Governing Body for its endorsement and submission to the International Labour Conference for approval.
11. The direct cost of external audit and subcontracted services amounts to **US\$1,067,000** per biennium.
12. The External Auditor conducts field work during the interim and year-end audit period at ILO headquarters and at selected external offices. Officials responsible for financial management services and other relevant units at headquarters and in the regions are heavily engaged in providing documentation and data required by the External Auditor, answering queries, discussing audit observations and responding to audit recommendations. The staff time invested in such interactions is considered as an indirect cost. These indirect costs and associated staff time are estimated to amount on a biennial basis to:

Items	Professional (work months)	General Service (work months)	Amount (in US\$)
Staff time	30	12	875 000

Office of Internal Audit and Oversight

13. The IAO fulfils an independent oversight function established under article 30(d) of the ILO Financial Regulations. The responsibilities of the Chief Internal Auditor and the Terms of Reference governing internal audit are contained in Financial Rule XIV. The Internal Audit Charter further describes the mission, mandate and responsibilities of the IAO within the regulatory framework. Through audit, inspection and investigation processes, the IAO determines the adequacy and effectiveness of the Organization's system of internal control, financial management and use of assets. Its aim is to provide reasonable assurance that the activities have contributed to the attainment of the Organization's goals and objectives. The activities of the IAO serve to provide the Director-General of the ILO and the Governing Body with an independent and objective evaluation – through reviews of systems, processes, functions, programmes and activities of the Organization – of the adequacy, effectiveness and efficiency of internal control systems in place. IAO's internal audit activities follow the international internal audit standards promulgated by the Institute of Internal Auditors.
14. In addition to its audit work, the IAO also conducts investigation activities concerning allegations of fraud, presumption of fraud or attempted fraud, as well as financial or administrative misconduct and other irregular activities, which have been excluded for this overview.
15. The Chief Internal Auditor provides an annual summary report to the Director-General of audits and investigations undertaken and the most significant findings, recommendations and conclusions, which is transmitted to the Governing Body in its March session of each year for debate and guidance.
16. The direct human and financial resources in relation to the functioning of the IAO are 80 per cent funded from Regular Budget (RB) and supplemented from other extra-budgetary sources. The direct cost per biennium can be summarized as follows:

Items	Professional (work months)	General Service (work months)	Amount (in US\$)
Staff	84	19.2	1 953 000
Non-staff (travel, communications, audit outsourcing, etc.)			522 000
Total per biennium			2 475 000

17. In addition, the staff time and associated biennial costs invested in the Office-wide follow-up of the implementation of internal audit recommendations and investigation outcomes are considered as indirect costs and summarized below:

Items	Professional (work months)	General Service (work months)	Amount (in US\$)
Staff time	23	13	654 000

Joint Inspection Unit

18. JIU is an independent external oversight body of the United Nations system mandated to conduct system-wide evaluations, inspections and investigations. The Governing Body decided that the ILO would participate in the UN Inspection system from its inception in 1968.³ The JIU mandate is to look at cross-cutting issues and to act as an agent for change across the United Nations system, for management and administrative efficiency and greater coordination between UN agencies and with other internal and external oversight bodies. Its reports aim to identify best practices, propose benchmarks and facilitate information-sharing throughout the UN system. The JIU Mission Statement includes, “To assist the legislative organs of the participating organizations in meeting their governance responsibilities in respect of their oversight function concerning management of human, financial and other resources by the secretariats”.⁴
19. The Strategic Programming and Management Department (PROGRAM) acts as ILO focal point on JIU matters. It coordinates with relevant departments and offices on JIU’s programme of work, individual reviews and Office-wide implementation of JIU recommendations. An annual report is submitted to the Governing Body providing information on JIU reports and management letters issued in the past year, and on ILO follow-up to its recommendations.
20. The direct cost of JIU is reflected in the ILO’s contribution to jointly-funded activities of the United Nations system. It amounts to **US\$325,000** per biennium.
21. The indirect cost involves the staff time on coordination and participation in JIU activities, which is estimated as follows:

Items	Professional (work months)	General Service (work months)	Amount (in US\$)
Staff time	8	N/A	222 000

Summary

22. The following table summarizes the financial information on individual areas of the ILO’s auditing and oversight system presented above.

Functions	Direct cost (US\$)	Indirect cost (US\$)	Total (US\$)
Independent Oversight Advisory Committee	617 000	138 000	755 000
External Auditor	1 067 000	875 000	1 942 000
Office of Internal Audit and Oversight	2 475 000	654 000	3 129 000
Joint Inspection Unit	325 000	222 000	547 000
Total per biennium	4 484 000	1 889 000	6 373 000

³ GB.170, Minutes, p. 42.

⁴ <https://www.unjiu.org/content/about-jiu>.