



## Governing Body

326th Session, Geneva, 10–24 March 2016

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

**PFA**

**Date:** 4 March 2016

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### EIGHTH ITEM ON THE AGENDA

## Report of the Independent Oversight Advisory Committee

#### Purpose of the document

This paper transmits the 2016 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 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.).



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) <sup>1</sup> and following the appointments made to the IOAC in November 2012 <sup>2</sup> and November 2013, <sup>3</sup> the IOAC comprised the following members until 31 December 2015:
  - Mr Luis CHINCHILLA (Peru)
  - Ms Eileen FUSCO (United States)
  - Ms Bushra Naz MALIK (Pakistan)
  - Ms Hilary WILD (United Kingdom)
  - Ms Jeya WILSON (South Africa)
2. The above members met in Geneva from 28 to 29 May 2015 and from 23 to 25 September 2015.
3. At its 325th Session (November 2015), the Governing Body appointed three new members for the three-year term commencing 1 January 2016. <sup>4</sup> The new IOAC membership is as follows:
  - Mr Luis CHINCHILLA (Peru)
  - Ms Carine DOGANIS (France)
  - Mr Frank HARNISCHFEGGER (Germany)
  - Ms Bushra Naz MALIK (Pakistan/Canada)
  - Mr N.R. RAYALU (India)
4. The newly constituted IOAC met in Geneva from 25 to 27 January 2016.
5. The Director-General transmits herewith the report of the Committee to the Governing Body for its consideration.

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

<sup>2</sup> GB.316/PFA/6/2; GB.316/PV(&Corr.), para. 657.

<sup>3</sup> GB.319/PFA/6/1; GB.319/INS/15/7; GB.319/PV, para. 308.

<sup>4</sup> GB.325/PFA/4; dec-GB.325/PFA/4; GB.325/PFA/4(Add.); dec-GB.325/PFA/4(Add.).



## Appendix

### **Eighth annual report of the Independent Oversight Advisory Committee**

1. The Independent Oversight Advisory Committee (IOAC) is pleased to present its eighth report on its work from May 2015 to January 2016. In accordance with its terms of reference, the former Committee, whose mandate covered the period from 2013 to 2015, met in Geneva from 28 to 29 May 2015 and from 23 to 25 September 2015. Following the appointment of three new members to the Committee by the Governing Body in November 2015, the newly constituted Committee met in Geneva from 25 to 27 January 2016. The Committee elected Ms Bushra Naz Malik (Pakistan/Canada) as Chairperson for a term of three years. All meetings were quorate and all members affirmed and signed their declaration that they had no conflict of interest.
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 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) 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 met with representatives of the External Auditor and the Auditor General of Canada.
3. The Committee much appreciated the opportunity to meet with members of the Governing Body in September 2015 for an informal briefing. That occasion provided an opportunity to discuss the Committee's work and identify areas for possible improvement.
4. This is a transitional report that reflects the work of both the former and the new members of the Committee. At its January 2016 meeting, the new members were briefed on the Committee's previous work and given an in-depth orientation to the work of the ILO.

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

5. The IOAC reviewed the quality and level of financial reporting, in particular the documents that make up the financial reporting process, namely, the report, the statements and the External Auditor's report and opinion. As reported to the Governing Body in June 2015, the Committee had reviewed the financial statements for 2014 in a meeting with the External Auditor and senior finance staff of the Office. That 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 2014, noting the Report of the External Auditor.
6. The review focused on the presentation of the figures, notes and complementary analytical reporting by the Office. The Committee 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 the External Auditor on a number of points requiring technical clarification and, accordingly, there was nothing of significance from an accounting point of view that the Committee wished to bring to the attention of the Governing Body. The

Committee noted with approval the improved readability of the financial statements, and encouraged the Office to further simplify technical accounting terms.

7. Based on its review and discussion with the External Auditor, the Committee was satisfied that the risks identified in the 2014 audit plan had been satisfactorily addressed and that other areas of focus by the External Auditor, such as performance audit work, added value to the ILO.
8. The Committee was also pleased to note that the Office was taking a measured approach to the introduction of a Statement of Internal Control based on the existing accountability process, the first step of which involved the inclusion of a management responsibility statement as part of the financial approval, contained in the financial report of 2014.

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

9. At its meeting in September 2015, the Committee reviewed the process adopted by the Office relating to adoption of new International Public Sector Accounting Standards (IPSAS) that could have an impact on the financial statements for future periods. The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities and recommended practice guidelines issued during the period would have no immediate impact for the ILO. The Committee, with the External Auditors and the Office, reviewed the six new standards (IPSAS 33 to 38) published during the year in order to consider their impact and the required approach. The Committee noted that the United Nations (UN) Task Force on Accounting Standards, of which the ILO is a member, would discuss the newly published standards. The Committee concurred with this approach.

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

10. At its meeting in September 2015, the Committee thoroughly reviewed the external audit scope, plan and approach for the financial year ending 31 December 2015 and is satisfied to report that it considered them 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.
11. The Committee held a private session with representatives of the External Auditor to discuss areas of mutual interest. This valuable mechanism, in use across the UN system, ensures 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. The Committee is pleased to report that the working relationship between the Office and the External Auditor has been effective and constructive.

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

12. The IOAC met with the Chief Internal Auditor, including in a private session, during each of its meetings. It reviewed the scope, plan and resources for the biennial 2016–17 and found them to be well conceived on the basis of a risk assessment. The Committee also reviewed the resource requirements to deliver the plan.
13. 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 advised the Chief Internal Auditor that it might be timely to undertake a performance audit of HRD, noting that considerable time had elapsed since that area was last audited and that it was included only in the IAO's strategic plan for 2018. The Committee is aware that human resources processes are included in the business process review that the Office is currently undertaking. It would therefore be appropriate, as part of the ILO's risk assessment to be conducted at the end of 2016, to

review the appropriateness of including a human resources performance audit in any adjustment to the plan.

***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.***

14. The Committee also reviewed the risk assessment with regard to the calculation of the resources required to deliver the audit plan. The Committee continued to have concerns in this respect, although it was pleased to note that additional resources had been allocated to the IAO during the year to meet any identified shortfalls. Furthermore, the Committee was satisfied that the Chief Internal Auditor had continued to engage, in an advisory capacity, in the development of the risk management framework of the Office.
15. The Committee considers that best practice would include the periodic reassessment by the IAO of the resources required to deliver the audit activities. It recommends that once such reassessment has taken place, the Director-General should ensure that resources are allocated to meet the revised assessment, especially in the event that the scope of activities is extended.
16. 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.

***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.***

17. With regard to the performance of the internal audit function, the IOAC noted that delivery of the 2014–15 plan had progressed well and had included, where necessary, outsourcing to increase capacity in areas requiring specialist skills. The Committee welcomed this approach, which enhanced the qualitative attributes of the governance framework. The Committee further noted that in the plan for the 2016–17 biennial, the Chief Internal Auditor had planned desk reviews which should also boost the effectiveness and extend the coverage of the audit.
18. 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 investigative unit remained a challenge, as that level depended on the volume and nature of investigations required. However, 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.
19. 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 process to be complete and well structured.
20. The Committee continued to review the implementation plans for the remaining recommendations arising from the External Quality Assurance Review of the IAO carried out in 2013. As reported earlier, two of these recommendations envisaged a role for the IOAC concerning the reporting line of the Chief Internal Auditor as well as his/her appointment and termination; the Committee supported these recommendations as they reflected good practice with reference to the Institute of Internal Auditors Standards and Guidance and were necessary to further strengthen the independence of both the IAO and the Chief Internal Auditor. Thus, the Committee supports the Chief Internal Auditor's

incorporation of the spirit of these recommendations in the revised Internal Audit Charter, which is now submitted for approval by the Governing Body. Furthermore, as the investigation role requires a different framework, the Committee had advised the Chief Internal Auditor to split the Charter into separate parts and noted that this had been agreed. Consequently, the Committee is pleased to recommend that the Governing Body approve the new charters, which will enhance the overall governance structure of the ILO.

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

21. The Committee was briefed by the Senior Risk Officer on the steps being taken to establish a formal enterprise risk management (ERM) structure, including the establishment of a ERM Framework applying to all aspects of the Office's work. In this regard, the Committee noted that the Office approach was based on international standards such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the ISO 31000 frameworks. The IOAC was pleased to see that the ERM Framework was practical, specific to the needs of the ILO and would be integrated into Office management practices. This would help with compliance and avoid an unnecessary duplication of effort, since risk management was already inherent in a number of aspects of the work of the Office. The Committee further advised that the review of existing policies and procedures should be undertaken in the light of the agreed risk appetite. The Committee was pleased to note the progress achieved during the year in this respect but noted that further work was required by the Office. It would therefore continue to review progress at regular intervals and report further on this important area of the governance of the ILO.
22. As noted in the Committee's report for 2015, governance practices in the Office relating to information technology (IT) underwent a significant improvement with the establishment of an Information Technology Governance Committee (ITGC). In 2015, a significant amount of work was carried out under the effective oversight of the ITGC. However, not all IT applications and services are managed by INFOTEC. The IOAC supports the Office's plan to consider further consolidation of IT functions, which should result in a more cost effective use of IT resources throughout the Office. In addition, it considers that dual reporting lines for field-based IT staff, to both operational management in field offices, and to INFOTEC, the competent technical department at headquarters, would be advisable.
23. 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 result that all field offices were now using IRIS functionalities. In addition, it noted that global payroll processing had been centralized, representing a significant achievement on the part of the Office. The Committee noted the need for further implementation in regional offices in conjunction with the relocation of the Regional Office for Africa to Abidjan. These changes had benefited the Office in terms of improved internal control and governance. The wider implementation of IRIS had enabled central management services to improve their oversight functions and the IAO to undertake monitoring and certain audit activities remotely. Completing the final stage of the IRIS roll-out will serve to further enhance the internal control framework. The Committee will continue to review progress in this area at its future meetings.
24. The Committee continued to receive briefings at each of its meetings on the evolution of the management reform process and was pleased to hear that the Office considered that the changes brought about under the reform were now being embedded as "business as usual" across various parts of the Office.
25. In relation to the business process review, the Committee noted that the Office was seeking to establish an appropriate balance between service and accountability as well as to avoid unnecessary bureaucracy. The Organizational Health Survey conducted during the year had not only identified areas in which the Office needed to continue investing but also highlighted areas in which more work was needed for the efficient and effective delivery of ILO services. The Committee also noted that perceived administrative complexity was a



concern, and recommended that the review should address administrative complexity through standardization and harmonization. During the course of 2016, the Committee will continue to review this process in terms of the cost/benefit impact of the business process review.

26. The Committee further noted that a fresh perspective had been obtained through the engagement of an external consultant, which had challenged internal preconceptions and kept vital staff fully engaged, and consequently should result in improved ownership of the end result.

***Recommendation 3 (2016): As part of the business process review, the Office should be encouraged to address administrative complexity through standardization and harmonization.***

27. The IOAC reviewed the status of implementation of both internal and external audit recommendations and noted that implementation reports continued to be prepared and followed up by the Office of the Treasurer and Financial Comptroller. The increased focus on qualitative elements in reporting on the implementation of internal audit recommendations had been most helpful in identifying key issues and risks and developing future strategy. The IT tool developed by the Office was considered to be useful, efficient and user-friendly and had expedited implementation. In view of this achievement, the Committee considered that overall governance could be further enhanced by expanding the involvement of the IAO in the follow-up process.

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

### **Prior IOAC recommendations**

28. The Committee has 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. The Committee notes that the Employee Profile module has been launched as part of the fully integrated ILO People e-Talent Management Suite, replacing the former skills mapping tool, the Yellow Pages. Data from that module is being used as part of the new recruitment and selection procedure, in particular for expression of interest in temporary mobility. Increased use of the module has contributed to the completion of profile data, but the actual completion rate remains below target. The Committee will review and report on implementation of the module in its 2016 report.

**Recommendation 1 (2015): The Office, in consultation with the Governing Body, continues 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 about the steps taken by the Office in this regard, including presentations made to the Governing Body and the current status of the working group report being prepared for consideration by the UN General Assembly. The Office reported that it was exploring proposals which would address the risk related to future increases in the liability. Although this would not fully address the risk, the Committee welcomed the initiative and recommended that work in this respect should be followed up in advance of a General Assembly decision on the matter. It 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.

**Recommendation 2 (2015): The Chief Internal Auditor continues to engage in an advisory capacity, in the development of the risk management framework of the Office.**

31. The Committee is satisfied to note that this recommendation was implemented. Moreover, it is pleased to note that the Chief Internal Auditor continues to sit in other governance committees in an advisory capacity.

**Recommendation 3 (2015): The Chief Internal Auditor takes a more realistic approach to calculating the level of resources needed to deliver the risk based plans of the IAO.**

32. The Committee is pleased to note that this recommendation was accepted and implemented in 2015. It will continue to monitor and assess the implementation of this recommendation.

**Recommendation 4 (2015): Following a more realistic assessment of the resources required for the effective functioning of the IAO, the Director-General should ensure that he allocates resources appropriate to the revised assessment made by the IAO.**

33. The Committee is pleased to note that the recommendation made last year was implemented. However, it will continue to monitor the process. This recommendation is being superseded by recommendation 2 (2016).

**Recommendation 5 (2015): The Director-General continues to develop the enterprise risk management framework, and that it is institutionalized within the culture of the Office.**

34. The Committee continues 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. However, noting that compliance with deadlines is below the desired level in certain components it encourages the Office to continue training activities in this regard across the Office. The Committee will continue to review progress and will apprise the Governing Body of the progress achieved.

**Recommendation 6 (2015): The Director-General reviews 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.**

35. The Committee is informed by the Office that any decision to enhance the existing Oracle software underpinning IRIS is carefully assessed by business units in collaboration with INFOTEC in terms of costs, benefits and risks, fully taking into account the long-term impact of customizations. New releases of the Oracle software are carefully evaluated to determine whether any new functionality being delivered could be used to eliminate previously implemented customizations. When necessary, such initiatives are presented to the ITGC for review and decision. The IOAC will continue to monitor the implementation of this recommendation while Oracle remains the Office's enterprise resource planning system.

**Recommendation 7 (2015): The Director-General considers developing metrics that will enable quantitative and qualitative assessments to be made of the effectiveness of outcomes of the administrative services review project.**

36. 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): The Director-General ensures that any future model for administrative services incorporates an appropriate internal governance and internal control framework, particularly for control and assurance functions.**

37. The Committee will comment on the implementation of this recommendation upon completion of the business process review.

Geneva, 17 February 2016

*(Signed)* Ms Bushra Naz Malik  
Chairperson