



**FOR INFORMATION**

THIRD ITEM ON THE AGENDA

**Audit questions**

**Report of the Independent Oversight  
Advisory Committee**

1. In November 2007, the Governing Body approved the establishment, on a trial basis, of an Independent Oversight Advisory Committee to provide advice to the Governing Body and the Director-General on the effectiveness of internal control, financial management and reporting, and internal and external audit outputs.<sup>1</sup>
2. At its 301st Session (March 2008), the Governing Body appointed the following members of the Independent Oversight Advisory Committee:<sup>2</sup>
  - Mr Gil BELTRAN (Philippines)
  - Mr Denys CHAMAY (Switzerland)<sup>3</sup>
  - Mr Reckford KAMPANJE (Malawi)
  - Mr Arto KUUSIOLA (Finland)
  - Mr Oscar MAFFE (Argentina)
3. In accordance with its terms of reference, as approved by the Governing Body, the Committee met in Geneva from 7 to 9 September 2009 and from 8 to 11 February 2010.
4. The Director-General herewith transmits the report of the Committee for information.

Geneva, 2 March 2010.

*Submitted for information.*

<sup>1</sup> GB.300/PV, para. 285.

<sup>2</sup> GB.301/PV, para. 212.

<sup>3</sup> Elected in September 2008 by the Committee to serve as Chairperson for a term of two years.

## Appendix

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

1. During its September 2009 and February 2010 meetings, the Committee met with senior officials of the Office, including the Executive Director, CABINET, Executive Director of the Management and Administration Sector, the Chief Internal Auditor, the Treasurer and Financial Comptroller, and the Director of the Bureau of Programming and Management, to follow up on matters from its previous sessions and to receive information on new items within the Committee's mandate. Subjects covered were:
  - the follow-up to the Committee's report to the Programme, Financial and Administrative Committee (PFAC) (March 2009);<sup>1</sup>
  - the overview of management reform initiatives, including the field structure review and accountability framework;
  - the implementation of International Public Sector Accounting Standards (IPSAS);
  - field deployment of the Integrated Resource Information System (IRIS);
  - the amendments to the Financial Rules;
  - Internal Audit;
  - the implementation of risk management;
  - the implementation of results-based management (RBM);
  - the overview of evaluation activities.
2. In addition, an information session with members of the PFAC was held during the February 2010 meeting.
3. The findings and recommendations of the Committee are based on information made available to it by officials of the Office and the External Auditor.

### Follow-up to the Committee's report to the PFAC (March 2009)

4. The Committee noted that the analysis undertaken by the Office concluded that commercial insurance was not a viable option for the replacement of staff on long-term medical leave. The Committee was informed of the progress being made by the Office in addressing this issue, through a form of self-insurance with clear thresholds and eligibility criteria. This is part of an overall review of policy and procedures associated with sick-leave reporting, validation and follow-up.

<sup>1</sup> GB.304/PFA/6/4.

*Recommendation 1. The Committee recommends that such arrangements be implemented as soon as possible within the 2010–11 biennium.*

## **Overview of management reform initiatives, including the field structure review and accountability framework**

5. In its follow-up to recommendations 1 and 5 of the report of the External Auditor for 2006–07, the Committee noted the work being undertaken on reform issues and the implementation of the new field structure as approved by the Governing Body in March 2009. The Committee welcomed the assignment on a full-time basis of a senior official with extensive experience and knowledge of human resource and field matters to ensure all significant issues are effectively dealt with.
6. The Committee welcomed the proposed preparation of clear descriptions of roles and responsibilities within the new structure and the progress towards the development of a formal accountability framework which would apply Office-wide. The introduction of letters of representation by senior management was considered an important element of the accountability framework. Information on other management reform initiatives shared with the Committee included:
  - register of financial interests;
  - policy on risk management;
  - Office Directive on RBM;
  - performance management system; and
  - outcome-based workplanning.
7. The Committee welcomed the publication in January 2010 of a Director-General's Announcement establishing the basic components and principles underlying the accountability framework. The Committee appreciated the proposal by the Executive Director of the Management and Administration Sector to share any draft accountability framework directive or procedures (planned for early 2010), prior to the documents being finalized.
8. As part of its follow-up to recommendation 5 of the report of the External Auditor for 2006–07, the Committee emphasized that this recommendation called for “improved executive decision-making based on a more comprehensively informed Senior Management Team taking greater corporate responsibility for decisions”. In this context, meetings with the Director-General and the Director, CABINET, were held to better understand the ongoing role of the Senior Management Team and CABINET in decision-making. The Committee will invite some members of the Senior Management Team to its next meeting to review the issue further in order to complete its consideration of this recommendation.

## **Implementation of IPSAS**

9. As had been requested at its previous session, the Committee received a detailed timetable for the implementation of IPSAS. It noted the changes to the earlier indicative

implementation plan for full implementation by 2010,<sup>2</sup> largely attributable to the constraints of obtaining reliable data from external offices in the absence of the IRIS field roll-out, the replacement or enhancement of the field financial system, as well as the dependence of IPSAS-compliant reporting on the enhancements to IRIS in the areas of field payroll, fixed assets and an adjustments ledger. The Committee welcomed the early implementation of key IPSAS elements in the 2009 financial statements, including expenditure accruals, the fuller recognition of assets and liabilities and the adoption of the IPSAS reporting format. After the adoption of the key elements the balance sheet will provide a more accurate view of the financial situation of the ILO and the adequacy of its assets to cover its liabilities.

10. The Committee was informed of the extensive training provided to ILO staff and of briefings provided to Governing Body members on IPSAS.

### Field deployment of IRIS

11. As a follow-up to recommendations by the External Auditors in their report of 2006–07 on IRIS, the Committee noted the revised plans for field roll-out, specifically the new focus on implementation initially in the regional offices. It noted major challenges in connectivity which clearly had been underestimated and were now impacting cost and delivery.
12. The Committee noted that a budget and implementation plan had now been reported to the PFAC in November 2009.<sup>3</sup> Costs related to IRIS roll-out to regional offices for change management activities (including training), connectivity and staff time to support roll-out had been estimated and adequate resources identified in the context of a zero-growth budget.
13. The Committee noted that centrally managed staff development funds would be used for training and change management activities and that other inputs to the roll-out such as design, development and support from business units would be absorbed within existing resource levels. As a consequence regional offices were being asked to fund any increase in telecommunications costs. It noted other IT initiatives such as knowledge management, video-conferencing, Internet access and electronic document management would also benefit from this enhanced connectivity. The Committee noted the Office's awareness of the range of issues involved for this project and its efforts to manage these issues.
14. Since the Office has concluded that IRIS, in its current form, could not be implemented in every field and project office, the status and future of the legacy field finance and administration system (FISEXT) is a key unresolved and urgent issue.
15. The Committee looked forward to a further briefing during its September 2010 meeting on updated plans and budgets for field offices' roll-out, including a briefing on the proposed operational model designed to meet the differing needs of field offices.

<sup>2</sup> GB.306/PFA/7.

<sup>3</sup> GB.306/PFA/ICTS/2.

***Recommendation 2. The Committee recommends that:***

- (a) given the significant risk identified by the Chief Internal Auditor related to FISEXT, the Office urgently address the financial system needs in all field locations to ensure the full roll-out of and/or integration with IRIS;***
- (b) the Office enhance its ongoing communications to staff and constituents on the plans and status of IRIS field roll-out; and***
- (c) the Office complete the enhancements to IRIS and other systems required to support full implementation of IPSAS as early as possible.***

## **Amendments to the Financial Rules**

16. The Committee reviewed and took note of the proposed amendments to the Financial Rules.<sup>4</sup>

## **Internal audit**

17. The Committee received detailed information from the Office on progress made towards the full implementation of the recommendations of the Chief Internal Auditor for 2008. The Committee considered the Office responses to the report of the Chief Internal Auditor for 2008<sup>5</sup> to be appropriate and adequate, noted that some actions were still in progress and wished to address two specific matters raised by the Chief Internal Auditor.
18. The Committee supported recommendation 1 by the Chief Internal Auditor that training was key to efficient and effective Office operations. It noted the progress made during 2009 on training, most notably procurement and IPSAS training.

***Recommendation 3. The Committee recommends that the Office make additional progress in developing comprehensive and sustainable training for managers, including those in technical cooperation projects, at both headquarters and in the external offices.***

19. With respect to business continuity planning, the Office reported that plans needed to be completed for field offices and that testing of all plans, both at headquarters and in the field offices, needed to be completed.

***Recommendation 4. The Committee recommends that the Office assign a high priority to completing the plans and testing of all business continuity plans.***

20. The Committee noted that a Directive and Procedure had been issued which define how recommendations of the Chief Internal Auditor would be followed up, as well as the status of reporting back on the implementation of recommendations. The Committee was pleased to see the progress made by the Office in improving follow-up to the recommendations and welcomed the reduction in response time. The Committee noted the delays in some cases in reporting implementation of recommendations and urged the Office to accelerate the process so that the Committee could review follow-up actions in a more timely manner.

<sup>4</sup> GB.306/PFA/8(& Corr.).

<sup>5</sup> GB.307/PFA/3/1.

21. The Committee made concrete recommendations to the Treasurer and Financial Comptroller as to how to further improve the follow-up, particularly where the implementation of a recommendation required extensive work by multiple organizational units over an extended period of time. These suggestions were intended to support verification that the recommendations had been appropriately implemented.
22. The Committee discussed in detail a sample of implementation reports and established a protocol for reviewing future audit reports and the corresponding implementation reports.
23. The Chief Internal Auditor presented the revised internal audit workplan and audit risk register for 2009. The Committee expressed its concern about the substantial reduction in the number of organizational units audited in 2009 due to vacant posts, staff illness and to additional unplanned work.
24. It was the opinion of the Committee that the work of the Office of Internal Audit and Oversight (IAO) was critical to the effective governance of the Office. Given that criticality, the Committee stressed that the resources made available to the IAO should match the work planned for 2010. In its opinion, the work planned should not be reduced to fit changes in resource availability.

***Recommendation 5. The Committee recommends that the Director-General consider providing additional resources to ensure the approved audit workplans are achieved when unforeseen events reduce the capacity of the IAO.***

25. Notwithstanding the above recommendation, the Committee was satisfied that a professional risk-assessment process was used by the Chief Internal Auditor to develop the audit workplan within the available budget.

### **Implementation of risk management**

26. The Committee noted the actions and activities carried out by the Office with respect to raising awareness and making risk management operational across the Office. In particular, it noted that risk-management procedures and guidelines would be distributed by mid-2010. The Committee also noted that staff development funds had been earmarked for enhancing risk management, in the first instance, at headquarters and that a contract had been issued to a consulting firm to provide training for a pilot programme. The Committee expressed its concerns about delays in implementing risk management in the field offices.
27. The Committee noted other risk-management initiatives in the Office, including a policy statement on risk management issued by the Director-General. Although a formal procedure for escalation of risks has yet to be published, the Committee was satisfied with the approach of including risk identification as part of the outcome-based workplanning. This should serve as a means to draw senior management attention to Office-wide (corporate) risks.

***Recommendation 6. The Committee recommends that the responsibility of managers to effectively manage risks be incorporated into their roles and responsibilities as part of the accountability framework.***

### **Implementation of results-based management**

28. The Committee engaged in detailed discussions with the Bureau of Programming and Management, the Labour Administration and Inspection Programme and the Bureau for

Employers' Activities on the practical aspects of implementing RBM. The Committee appreciated the transparency of the presentations in terms of challenges faced in implementing RBM. The Committee recognized the difficulties implementing RBM in a knowledge and advocacy-focused Organization like the ILO. The Committee noted the efforts and level of success to date but appreciated that this was a work in progress.

### Overview of evaluation activities

29. The Committee received a presentation on the work of the Evaluation Bureau during its September 2009 meeting. Although recognizing the importance of the Bureau's work and its role in governance, the Committee determined that oversight of the evaluation function did not fall within its current mandate.

### Other business

30. The dates of 13-15 September 2010 were agreed for the next meeting of the Committee. The agenda of the September 2010 meeting will include:

■ *Standing item*

- Review of Office progress on follow-up to recommendations of the Chief Internal Auditor.

■ *Other items*

- Meeting with members of the Senior Management Team.
- Review of the Financial Report and Audited Financial Statements for the Seventy-first Financial Period (2008–09) and the report of the External Auditor.
- Meeting with the External Auditor.
- Follow-up on issues and recommendations contained in the March 2010 report of the Committee.

31. The Committee expressed its appreciation to the Director-General, staff of the Office and the External Auditor for their assistance and the detailed and transparent presentations made on all items on the agenda.

11 February 2010.

(Signed) Mr D. Chamay  
Chairperson