Governing Body

310th Session, Geneva, March 2011

GB.310/PFA/5/3

Programme, Financial and Administrative Committee

PFA

FOR DEBATE AND GUIDANCE

FIFTH 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 (IOAC) 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. [1]

2. At its 301st Session (March 2008), the Governing Body appointed the following members of the IOAC: [2]

- Mr Gil BELTRAN (Philippines)

- Mr Denys CHAMAY (Switzerland) [3]

- Mr Reckford KAMPANJE (Malawi)

- Mr Arto KUUSIOLA (Finland)

- Mr Oscar MAFFÉ (Argentina)

3. In accordance with its terms of reference, as approved by the Governing Body, the Committee met in Geneva from 13 to 15 September 2010 and from 2 to 4 February 2011.

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[1] GB.300/PV, para. 285.

[2] GB.301/PV, para. 212.

[3] Elected in September 2008 by the Committee to serve as Chairperson for a term of two years and re-elected in September 2010 to serve as Chairperson for a further two years.

4. The Director-General herewith transmits the report of the Committee to the Programme, Financial and Administrative Committee (PFAC) for its consideration.

Geneva, 25 February 2011

Submitted for debate and guidance

Appendix

Report of the Independent Oversight
Advisory Committee (Third annual report)

1. In accordance with its terms of reference, as approved by the Governing Body, the Committee met in Geneva from 13 to 15 September 2010 and from 2 to 4 February 2011. Present were Messrs D. Chamay (Chair), R. Kampanje (present for the September 2010 meeting only), A. Kuusiola, G. Beltran and O. Maffé. Mr Denys Chamay (Switzerland) was re-elected as chairperson for a further term of two years. [1]

2. The Committee reviewed its rules of procedure as established in the Terms of Reference and decided that they were currently sufficient. Any further consideration should be undertaken as part of the review of the IOAC that has recently commenced.

3. During their two meetings, the Committee met with senior officials of the Office, including the Executive Director, CABINET, the Executive Director of the Management and Administration Sector, the Executive Director of the Employment Sector, the Treasurer and Financial Comptroller, the Director of the Bureau of Programming and Management, the Director of the Human Resources Development Department, the Chief Internal Auditor and the Officer-in-Charge of the Information Technology and Communications Bureau, to follow up on matters from its previous sessions and to receive information on items within the Committee's mandate.

4. In addition, the Committee met with representatives of the External Auditor, the Auditor General of Canada.

5. The Committee also received a presentation from the Office on the external independent evaluation of the ILO's Evaluation Unit.

6. During the September 2010 and February 2011 meetings, the Committee conducted video conferences with the Regional Directors for Latin America and the Caribbean, Asia and the Pacific, and Europe to discuss topics related to audit and audit follow-up, coordination of activities with technical sectors at headquarters and managing for results. A video conference was also held with the Director of the Decent Work Country Team in Budapest as part of the Committee's ongoing monitoring of IRIS activities.

7. The Committee met with the consultants who had been engaged by the Office to provide a review and a report to the Governing Body on the role and operations of the IOAC. [2]

8. The findings and recommendations of the Committee are based on information made available to it by officials of the Office and the External Auditor.

International Public Sector
Accounting Standards (IPSAS)

9. The Committee received presentations from the Office on the status of IPSAS implementation. The Committee discussed with the External Auditor and the Office the constraints faced by the Office in implementing IPSAS. The Committee noted that effective management by the Office of the key interdependencies in IT systems for data collection at headquarters and the external offices was fundamental to achieving full implementation of IPSAS with the 2012 financial statements and to maintain IPSAS compliance thereafter.

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[1] GB.300/PFA/5 and GB.300/PFA/5(Add.).

[2] GB.300/PFA/5(Add.).

10. The Committee took note of earlier Governing Body comments on the implementation of IPSAS which includes the Oracle Assets Project, in particular its guidance that the Office should implement IPSAS within existing resources. It also reviewed the paper before the current session of the Governing Body on IPSAS status. [3] Given the restricted resources and the increased workload throughout the Office, the Committee was concerned that this could put at risk the implementation date and the sustainability of IPSAS compliance.

Financial and administrative systems (IRIS, FISEXT)

11. The Committee received a presentation on the external evaluation of the implementation of IRIS in Budapest as the pilot office. The Committee noted that the Office and the consultants concluded that the implementation was a success. The Committee was pleased to note the positive assessment on the implementation by the Regional Director for Europe and the Director for Budapest. It noted, however, their concern that continuing support for IRIS would be needed in the years to come. The Office reported that it was taking action on the key lessons learned.

12. The Committee noted that the organizational impact of the implementation of IRIS in Budapest had not been fully anticipated and, following a review of business processes, would require either the redeployment of staff within the Budapest office or an alternative distribution of responsibilities.

13. The Committee received several presentations by the managers involved in the IRIS project and concluded that a successful field roll-out to all regional offices, within the projected time frame of 2012–13, could only be achieved if recommendations 1 and 2 below were accepted and implemented.

> *Recommendation 1. The Committee strongly recommends the appointment of a single dedicated IRIS manager with responsibility for functional, technical and support activities, and to use a standard project management methodology in order to mitigate risks associated with the further roll-out of IRIS to the field offices.*

14. The Committee was briefed on the findings of the IT infrastructure study as reported to the Governing Body at its last session.

> *Recommendation 2. The Committee strongly endorsed the proposed infrastructure investments, described as the "transformation scenario" in the study, which were fundamental to the Office delivering its services. This was considered particularly important for knowledge sharing, business continuity planning and IRIS deployment. The Committee, therefore, recommends favourable consideration by the Governing Body of the proposed investment in IT infrastructure.*

Key personnel

15. The Committee noted the continuing vacancy of the Chief of the Information, Technology and Communications Bureau and was concerned that such a key position was vacant. The Committee also expressed concern at the number of IT-related initiatives the Office was managing, the dependence on a small number of key staff and the increased support levels required post-implementation within a restricted resource base. The Committee recognized that the resource constraints facing the Office may prevent the identification of adequate personnel back-up arrangements for all situations, but is of the opinion that this heightens the need to document the risk exposure.

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[3] GB.310/PFA/5/4.

> *Recommendation 3. The Office should move urgently to complete the selection and recruitment of key management positions such as the Chief of the Information, Technology and Communications Bureau.*

> *Recommendation 4. The Office should identify and document the risks associated with the unavailability of key staff and the associated mitigation measures. Key staff members are defined as those essential to the implementation of strategic projects and specialized staff performing essential functions.*

External audit

16. The representative of the External Auditor presented her report on the financial statements of the ILO for 2008–09. After extensive discussions, the Committee noted the External Auditor's comments on challenges and risks to the successful implementation of IPSAS as well as best practices which it believes should have been turned into clear recommendations to the PFAC to effectively mitigate these risks.

17. The Committee supported the view of the External Auditor that the impact of the implementation of IPSAS went beyond financial statement presentation and would have implications on management and governance.

18. Having reviewed the financial statements, the Committee recognized the need for two financial presentations (IPSAS-compliant and ILO budget management-compliant) as well as a clear reconciliation between the two, in order to meet the needs of all users of these financial reports.

19. The Committee noted that the implications of decisions taken by the Office as to how to implement IPSAS standards needed to be well understood by users of the financial statements.

> *Recommendation 5. The Committee recommended that the Office clearly explain to financial statement users how cash-based as well as non-cash-based transactions (for example, unrealized income) affected the surplus as determined in accordance with IPSAS and with the Financial Regulations. Users of ILO financial statements should also be informed that fair market valuations for certain assets such as land and buildings and investments should not be understood as a sustainable means to offset unfunded liabilities such as After Service Health Insurance.*

20. During discussions of the external audit plan for 2010, the Committee was satisfied with the coordination and effective working relationship between the External Auditor and the Chief Internal Auditor and noted that the External Auditor had found nothing of significance in her review of internal audit reports which might lead to an increased risk of material financial misstatements.

21. The Committee also noted with satisfaction that selected management issues would be addressed in the 2010 External Audit Report – including any issues found during her audits of staff training and programme performance measures.

Internal audit

22. The Committee reviewed reports of the Chief Internal Auditor to the PFAC (March 2010 and March 2011). [4] The Committee expressed concerns about the number of specific areas in which recommendations were appearing repetitively in multiple audit reports. These included:

   ■ Office-wide risk management;

   ■ accountability framework;

   ■ training;

   ■ monitoring/control of implementing partners;

   ■ business continuity planning;

   ■ work planning;

   ■ FISEXT;

   ■ reporting of suspicion of fraud or other irregularities.

23. The Committee discussed the Director-General-endorsed, risk-based internal audit workplan for 2010–11 and received confirmation from the Chief Internal Auditor ad-interim that the audit plan was developed and implemented independently. He assured the Committee that all key audit missions planned for 2011 would be completed assuming 100 per cent of existing resources were available.

24. The Committee discussed the internal audit budget included in the Programme and Budget proposals for 2012–13. The Committee was assured by the Chief Internal Auditor ad-interim that, barring unforeseen events and based on the 2006 Audit Needs Assessment, the resources included in the proposals for 2012–13 should be adequate to achieve the required audit coverage.

25. The Committee discussed Office follow-up to the recommendations of the Chief Internal Auditor. The Committee offered further suggestions as to how to strengthen the follow-up to the effective implementation of the recommendations, concerning both the procedure and the data structure of the implementation report. The Committee received a report from the Office on changes to procedures and noted that the relevant internal governance (IGDS) documents were being revised accordingly.

26. The Chief Internal Auditor ad-interim confirmed that there were no high-risk observations that had not been adequately addressed by the Office. The Committee expressed concern that recommendations were often not implemented within target dates established by the Governing Body (in the programme and budget). Although noting significant improvements in the reporting on audit follow-up, the Committee considered that more priority should be given by the responsible officials to providing timely responses in accordance with the procedure established by the Office. [5]

Recommendation 6. The Committee recommended that Regional and Executive Directors assume more active engagement in following up on internal audit recommendations in the regions or sectors.

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[4] GB.307/PFA/3/2 and GB.310/PFA/5/2.

[5] IGDS Office procedure No. 123.

> *Recommendation 7. The Committee recommended that a summary report on status of follow-up to internal audit reports be periodically provided to the Director-General for sharing with the Senior Management Team (SMT). It also suggested that common audit observations may be usefully discussed by the SMT to increase awareness of senior management.*

27. The Committee was briefed on the risk assessment undertaken by Internal Audit in preparing its annual workplans. It noted that the established practice was to conduct the risk assessment in January/February.

> *Recommendation 8. The Committee recommended that the Chief Internal Auditor conduct the annual risk assessment prior to year-end so that the resulting audit plan could be endorsed and ready for execution by January of the following year.*

Follow-up to the report of the Committee to the PFAC [6] (March 2010)

Recommendation 1 (2010): The Committee recommended that such arrangements be implemented as soon as possible within the 2010–11 biennium.

28. The Committee was informed of the proposed policy and procedure for self-insurance for long-term sick leave. Due to the budget implications of some US$1 million per biennium, its implementation could only be considered in the context of the proposed Programme and Budget for 2012–13. The Committee looked forward to a report from the Office during the Committee's next meeting on the budgetary decisions to be taken by the Governing Body and Conference.

Recommendation 2 (2010): The Committee recommended 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.

29. The Committee was informed of the successful implementation of IRIS in the Budapest office (see paragraphs 11 and 12 above) as well as the plans for implementation in the Bangkok and Beirut regional offices. The Committee further noted that the issue of replacement of administrative systems in field offices, other than regional offices, would be considered in detail once the roll-out to regional offices was complete. This would allow the Office to more accurately assess opportunities for simplified versions of IRIS and/or compatible systems together with improved business processes.

30. The Committee was encouraged by the new project governance structure, including the IRIS Governance Board and the IRIS Management Task Team, and found this to be a constructive development which should contribute to the overall risk management of IRIS activities.

Recommendation 3 (2010): The Committee recommends that the Office make additional progress in developing comprehensive and sustainable training for

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[6] GB.307/PFA/3/3.

managers, including those in technical cooperation projects, at both headquarters and in the external offices.

31. The Committee received a presentation from the Human Resources Development Department on staff development plans and procedures.

32. The Committee recognized the revision of the Management Leadership Development Programme (MLDP) focusing initially on the Accountability Framework and the responsibilities of senior managers as a positive step. It took note of the ambitious plan and requested information on the details of the planning and progress achieved at its next meeting. The Committee stressed the importance of the expansion of more operational aspects of this programme to managers of TC projects as well as other staff involved in administration.

33. The Committee looked forward to receiving a report for discussion during its next meeting (September 2011), on the use of staff development funds, including spending for IRIS training, together with a final description of the programme functionalities for the revised MLDP and progress on expanding training programmes on administrative policies and procedures in both headquarters and external offices. Note was taken that the training modules were scheduled for final delivery by the end of 2011.

> *Recommendation 9. The Office should prepare clear plans (project organization, timeline and resourcing) for the development of a comprehensive training for headquarters and field support staff on accountability and administrative matters to address the concerns expressed by the Chief Internal Auditor.*

Recommendation 4 (2010): The Committee recommended that the Office assign a high priority to completing the plans and testing of all business continuity plans.

34. IGDS No. 192, *Roles and responsibilities of senior managers in the ILO* (20 September 2010) identified risk management and safety and security as one of the key responsibilities of all senior managers in the Office. Although not specifically referred to in the Announcement, the Committee understands business continuity plans to be an integral part of risk management. Whilst initial training and guidance had been provided, formal documentation of the plans and their testing had yet to be completed.

> *Recommendation 10. The Committee recommends that managers be formally reminded of their specific responsibility to ensure a business continuity plan is established, documented and tested for their office.*

Recommendation 5 (2010): The Committee recommended that the Director-General consider providing additional resources to ensure the approved audit workplans are achieved when unforeseen events reduce the capacity of the Internal Audit Office.

35. The Committee noted that a formal process existed for managers to submit a request for supplementary funding, with a clear business case, when it was determined that a unit's ability to deliver on its core mandate had been significantly impeded.

Recommendation 6 (2010): The Committee recommended that the responsibility of managers to effectively manage risks be incorporated into their roles and responsibilities as part of the Accountability Framework.

36. The Committee noted that the proposed Programme and Budget for 2012–13 included an Office-wide strategic risk register. The Committee further noted that manager accountability for risk management was included in the job descriptions of key managers and had been included in the roles and responsibilities for headquarters and external office

directors published in 2010. [7] This document also included the respective roles of entities such as regional offices, decent work technical support teams, and others.

Follow-up to external audit recommendations (2006–07)

37. As follow-up to recommendation 5, in the report of the External Auditor for the 2006–07 financial period, the Committee continued to review the effectiveness of the SMT structure with the Executive Director, CABINET, the Executive Director of the Management and Administration Sector, the Executive Director of the Employment Sector and the Regional Directors for Latin America and the Caribbean, Asia and the Pacific, and Europe. The Committee was satisfied that the SMT, as currently structured, contributes effectively to Office governance.

General

38. In its review of the management and administrative initiatives and projects, while recognizing the priority of delivering the Decent Work Agenda, the Committee considered it important that the Governing Body be aware that implementation of such projects will continue to progress slowly in the current scarce resource environment.

39. The Committee decided to conduct its next meeting from 14 to 16 September 2011. The agenda for the meeting will include:

   ■ internal audit;

   ■ Office follow-up to the report of the Committee to the PFAC (March 2011);

   ■ Office follow-up to the report of the Chief Internal Auditor to the PFAC (March 2011); and

   ■ review of the Financial Statement and External Auditor's Report for the year ended 31 December 2010.

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

15 February 2011   *(Signed)* Mr D. Chamay
                                                                                Chairperson

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[7] IGDS No. 192.