



## EIGHTH ITEM ON THE AGENDA

**Establishment of an Independent Oversight Advisory Committee (IOAC)**

1. In his report to the Governing Body in June 2006, the External Auditor recommended, inter alia, the establishment of an Independent Oversight Advisory Committee (IOAC) of experts 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. Discussions during the 295thbis Session (June 2006) of the Governing Body indicated general support for the establishment for such a committee, although reservations were raised by both the Employer and Worker spokespersons. Further informal consultations with representatives of the Programme, Financial and Administrative Committee (PFAC) have since taken place.
2. The recommendation of the External Auditor reflects current best practice in the private sector and increasingly within the public sector, including international organizations. The proposal included in this paper is consistent with recommendations included in the Comprehensive Review of Governance and Oversight within the United Nations, Funds, Programmes and Specialized Agencies,<sup>1</sup> prepared in 2006 at the request of the General Assembly. The proposal also draws upon experiences of other UN-family organizations with respect to the mandate, composition, selection process and professional qualifications for such a committee.
3. The IOAC, if established, would serve in an expert advisory capacity to the Governing Body and would not exercise any decision-making authority. It would assist the Governing Body exercise its governance responsibilities, in particular with respect to audit matters. The Committee would not be an additional audit body but would provide, inter alia, expert advice to the Governing Body on audit scope, plans and recommendations and follow-up action by the Office. Ultimate responsibility for the management of risk and the system of internal control within the Office rests with the Director-General and an IOAC could also be a valuable source of advice and assurance for the Director-General in discharging this responsibility.

<sup>1</sup> A/60/883/Add.1 and A/60/883/Add.2.

4. The appendix to this paper provides proposed Terms of Reference for the IOAC. The Terms of Reference outline the functions, composition, term of office and administrative arrangements for the Committee. The Terms of Reference also includes proposed:

- criteria for defining the independence of members of the IOAC; and
- a declaration of independence of members of the IOAC.

At the Governing Body session following the approval to establish an IOAC, nominations would be submitted by the Director-General to the PFAC for recommendation to the Governing Body. In seeking qualified and independent candidates, the Director-General would ensure a broad representation reflecting the tripartite and geographical membership of the Organization.

5. Consultations undertaken by the Office on the proposed Terms of Reference for the IOAC have so far not led to a consensus. The PFAC is therefore invited to provide guidance to the Office on the continuation of the consultative process.

6. The Director-General's Programme and Budget proposals for 2008–09 include provision for the establishment of an IOAC, should the Governing Body so decide. The budget is based on the following assumptions:

- members of the Committee will serve without compensation;
- all five members will travel to attend two meetings of the Committee per year, each meeting lasting two days.

Travel costs	US\$92,000
Interpretation (three languages)	US\$17,000
Secretariat <sup>2</sup>	<u>US\$110,000</u>
<b>Total</b>	<b><u>US\$219,000</u></b>

7. *The Committee may therefore wish to recommend to the Governing Body that:*

- (a) *the Office continue the process of consultation with a view to reaching consensus on the establishment of an Independent Oversight Advisory Committee (IOAC); and*
- (b) *the composition and work of the IOAC be in accordance with the Terms of Reference appended to this paper, or as modified following further consultations.*

Geneva, 20 February 2007.

*Point for decision:* Paragraph 7.

<sup>2</sup> One half-time General Service official to organize meetings, travel arrangements, documentation, follow-up, etc. Support provided by Professional officials will be from within existing resources.

## Appendix

### Independent Oversight Advisory Committee

#### *Terms of Reference*

The Independent Oversight Advisory Committee of the International Labour Office assists the Organization in fulfilling governance and oversight responsibilities. Reporting to the Programme, Financial and Administrative Committee of the Governing Body, its primary functions are:

- (1) to appraise management's actions to maintain appropriate and effective internal controls;
- (2) to provide advice on the maintenance of the highest possible standards of financial management and propriety;
- (3) to review the operation and effectiveness of the Financial Regulations and Financial Rules;
- (4) to review management's risk assessment and to ensure that the risk management process is comprehensive and ongoing;
- (5) to review Internal Audit's biennial audit plans and arrangements for internal audit;
- (6) to monitor and review the effectiveness of the ILO's internal audit function;
- (7) to confirm audit and assurance arrangements have been conducted and delivered during the year to provide the necessary levels of assurance required by the Director-General and the Governing Body;
- (8) to monitor the timely, effective and appropriate responses to significant internal and external audit recommendations;
- (9) to provide advice, as appropriate, directly to the Programme, Financial and Administrative Committee with respect to the periodic selection, appointment or removal of the Internal and External Auditor of the Organization;
- (10) to make recommendations and observations to the Director-General on issues within its Terms of Reference, as it considers appropriate. The Director-General may also request advice from the Committee on issues within its mandate;
- (11) to prepare an annual report, which shall be presented by the Chair to the March session of the Programme, Financial and Administrative Committee.

#### *Composition*

The Committee shall comprise five members who have demonstrated integrity, objectivity and expertise in senior positions in the areas covered by these Terms of Reference.

Members of the Committee shall be nominated by the Director-General and appointed by the Governing Body on the recommendation of the Programme, Financial and Administrative Committee.

Members will provide services pro bono.

Independence from the Organization is a fundamental requirement of members. Members serve in their personal capacity and shall not seek or accept instructions in regard to their performance on the Committee from any government, constituent organization or

other authority external to the International Labour Office. All members will be required to sign a declaration of independence.<sup>1</sup>

- Members should possess relevant qualifications and experience in management, accounting, auditing, risk management and other financial and administrative matters.
- Members should have or acquire rapidly an understanding of the objectives of the Organization, its tripartite governance and accountability structure and the relevant rules governing it, its organizational culture and control environment.
- Committee membership should include a balance of representation with public and private sector experience, noting the independence requirements articulated in Appendix 1.
- At least one member shall be selected based on his/her qualifications and experience as a senior oversight professional or senior manager in the United Nations system or another international organization.

Expertise should guide the selection process with due regard given to the tripartite nature of the organization, geographical distribution and gender.

The Chair of the Committee shall be selected by the members of the Committee.

The Director-General, External Auditor, Treasurer and Financial Comptroller, Chief Internal Auditor or their representatives shall attend meetings when invited by the Committee. Other officials with functions relevant to the items on the agenda may likewise be invited.

### ***Term of office***

The term of office shall be four years. The initial appointment of two of the members shall be for a period of two years to ensure continuity of membership.

The Chair of the Committee shall serve in this capacity for a term of two years.

Appointment to the Committee may only be revoked by the Governing Body on the recommendation of the Programme, Financial and Administrative Committee.

### ***Administrative arrangements***

Members of the Committee not resident in the Canton of Geneva or neighbouring France shall be entitled to the reimbursement of travel expenses in accordance with Office procedures applying to senior officials.

The Committee shall meet twice per year – normally in February and September. Exceptionally, the Committee may convene an extraordinary meeting when required.

The quorum for meetings of the Committee shall be three members.

The Terms of Reference of the Committee shall be reviewed by the Governing Body every five years.

<sup>1</sup> Appendix 1 provides the criteria for independence and a format for the required declaration.

## Appendix I

### Criteria for defining the independence of members of the Independent Oversight Advisory Committee

1. For a candidate committee member to be considered independent she/he may not have any material relationship<sup>1</sup> with the ILO, either as an executive officer or significant shareholder of a company that has a relationship with the ILO.
2. In addition a candidate will not be considered independent, if she/he:
  - (a) is or has been an official of the ILO within the last three years;
  - (b) is or has been a member of a governing or oversight body of the ILO or its constituents within the last three years;
  - (c) is or has been a member of the Government of a member State within the last three years;<sup>2</sup>
  - (d) has an immediate family member<sup>3</sup> who is or has been a senior official<sup>4</sup> of the ILO within the last three years;
  - (e) has an immediate family member who is or has been a senior member of the Government of a member State within the last three years;
  - (f) has received or has an immediate family member who has received during any 12-month period within the last three years any compensation from the ILO (other than Committee fees);
  - (g) has an immediate family member who is or has been within the last three years employed as an executive officer of a company where any of the ILO present senior management served at the same time on that company's compensation committee;
  - (h) is a current employee of a company or an organization or entity that has made payments to or received payments from the ILO in any of the last three calendar years in excess of the lesser of US\$100,000 or 2 per cent of the consolidated expenditures or revenues of the company;
  - (i) has an immediate family member who is a current executive officer of a company, an organization or entity that has made payments to or received payments from the ILO in any of the last three calendar years in excess of the lesser of US\$100,000 or 2 per cent of the consolidated expenditures or revenues of the company;
  - (j) holds any other board mandates, member State or constituent organization appointed position that might infringe on her/his independence;
  - (k) held an interlocking directorship over the past three years between the companies related to the candidate and the ILO;

<sup>1</sup> "Material relationship" meaning that payments from the ILO exceed 2 per cent of the candidate's income or the candidate's company sales or purchases of products and/or services, during the preceding three years.

<sup>2</sup> Former national civil servants are not included within this restriction.

<sup>3</sup> Immediate family member meaning: spouse, parents, children, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares the candidate's home.

<sup>4</sup> Meaning any position at the Assistant Director-General level or higher.

- (1) has entered into or accepted directly or indirectly any consulting, advisory or other compensatory fees from the ILO<sup>5</sup> other than in her/his capacity as a committee member (compensation for committee services).

### **Declaration of Independence of members of the Independent Oversight Advisory Committee**

I declare to the best of my knowledge that having read the criteria for independence appended to the Terms of Reference for the International Labour Office Independent Oversight Advisory Committee, I am eligible to serve as a member of that Committee. I undertake to discharge my functions and responsibilities as a member of the Committee with the interests of the International Labour Organization alone in view and not to seek or accept instructions in regard to the performance of these functions from any government, constituent organization or other authority external to the International Labour Organization.

Should there be any change in my relationship with the International Labour Office with respect to the criteria for independence, I will immediately inform the Chairperson of the ILO Governing Body.

*Signed:* .....

*Date* .....

<sup>5</sup> Such as fees, travel expenses or remuneration paid for service on ILO panels, committees and boards.