



## **FOR INFORMATION**

### SIXTH ITEM ON THE AGENDA

## **Audit questions**

### **Follow-up to the report of the Chief Internal Auditor for the year ended 31 December 2007**

1. At the 301st Session (March 2008) of the Governing Body, the Committee considered the report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2007.<sup>1</sup> This paper addresses follow-up action taken by the Office on the Chief Internal Auditor's 2007 recommendations.
2. The Chief Internal Auditor's overall assessment for 2007 was that there was no material weakness in the ILO's overall system of internal control. Her recommendations for improvements in the areas covered by the report are set out in the appendix to this paper, together with the Office responses and details of follow-up action taken.
3. The ILO management continues to work in close liaison with the Office of Internal Audit and Oversight in order to derive full benefit from its recommendations, and to ensure that these are followed up and effectively implemented.

Geneva, 27 January 2009.

*Submitted for information.*

<sup>1</sup> GB.301/PFA/6.

## Appendix

### Status report of the implementation of recommendations made by the Chief Internal Auditor in her report to the March 2008 session of the Governing Body

Audit recommendations	Report of the Office on actions taken
<p><b>Recommendation 1: Paragraph 12</b></p> <p>As one of the first steps towards applying the principles of enterprise risk management (ERM) throughout the ILO, the Office of Internal Audit and Oversight (IAO) recommends that the Office develop a risk management policy that provides a framework that would apply to the whole of the ILO. The IAO also recommends that once a policy has been developed and approved by the Director-General, the Office develops a strategy to roll out risk management, and that it be included as a milestone to be achieved in the results-based management road map and that the necessary resources be allocated to ensure its effective implementation.</p>	<p>The Office is developing a risk management policy and a guideline supporting implementation of risk management. Training is currently in progress for the governance, support and management departments on risk management theory and ILO specific methods, followed by facilitated working sessions at the departmental level to develop risk registers. Once this first phase of training is completed, the materials will be revised, if necessary, and the second phase of training for the remainder of headquarters departments will begin. It is envisaged that the second phase of training will be conducted by outside experts and the preparation of the request for proposals is under development. A final stage of training will cover external offices. Training costs will be covered from centralized staff development funds.</p> <p>The Outcome Strategies in the Programme and Budget for 2010–11 will include the identification of risks and mitigation strategies.</p>
<p><b>Recommendation 2: Paragraph 15</b></p> <p>The forthcoming ORACLE upgrade provides the Office with an opportunity to review the payroll process and associated controls. The IAO therefore recommends that the Office reviews the system of controls in place over the payroll process and assess if enhanced password security, better segregation of duties and improved monitoring can be introduced. The Office should also take the opportunity of the upgrade exercise to review the remaining manual controls over the payroll process to determine those that can be automated.</p>	<p>During the upgrade of IRIS, the Office reviewed the processes and system controls and, following the implementation of some minor improvements, found them to meet the required needs. Some of the system controls are automated whilst some remain manual, as this can provide a more effective means of investigation through independent reconciliation. The Office has taken note of the recommendations made by the IAO and has identified specific reconciliation reports, which when developed will improve the efficiency of the existing controls over the payroll process.</p>
<p><b>Recommendation 3: Paragraph 18</b></p> <p>In one of the offices visited, which the ILO owns, no repair and maintenance plan had been developed. The IAO recommended that this office should, in consultation with INTER, develop such a plan to ensure continued proper maintenance of the building.</p>	<p>Headquarters experts, in coordination with the relevant field offices, will develop maintenance plans covering the normal life cycle of premises owned by the Office. These plans will address both regular ongoing and periodic maintenance, and major refurbishment needs over the longer term. The ongoing maintenance costs for ILO-owned properties form part of the operational budget of the Office. The costs related to long-term plans for scheduled refurbishment of these properties will be met through use of the reserve being established in the Building and Accommodation Fund.</p>

Audit recommendations	Report of the Office on actions taken
<p><b>Recommendation 4: Paragraph 19</b></p> <p>In another office, the IAO found that controls to ensure proper compliance with established rules, regulations and instructions concerning home leave were inadequate. As home leave is a high risk area and can easily be open to abuse, the IAO recommended that the office immediately institute a system of control that would ensure due compliance with ILO rules, regulations and instructions on this matter; and retroactively review home leave travel undertaken from the beginning of 2006 to confirm its regularity.</p>	<p>Following the audit, a system of control was immediately implemented in the Regional Office concerned. Periodic reviews of the status of home leave have been carried out and any discrepancies regularized so as to ensure compliance with ILO rules, regulations and instructions. A review of all home leave undertaken from the beginning of 2006 to 31 December 2007 was also carried out, and its regularity has been confirmed.</p>
<p><b>Recommendation 5: Paragraph 26</b></p> <p>The audit concluded that the project was satisfactorily controlled and the implementing partners visited adequately managed ILO funds. To enhance the effectiveness and improve the efficiency of the project's system of internal control, the IAO recommended that the ILO's Field Office Financial System (FISEXT) should be implemented in the Nairobi project office (IPEC: National Plan of Action for the Elimination of the Worst Forms of Child Labour in Kenya) with appropriate training provided to project staff.</p>	<p>FISEXT was implemented in the Nairobi project office in December 2007. Training of project staff and officials from the Dar-es-Salaam office was undertaken at the same time. The implementation has significantly improved the timeliness of expenditure reporting and provided better management information to project personnel.</p>
<p><b>Recommendation 6: Paragraph 26</b></p> <p>The IAO also noted that financial controls over implementing partners could be enhanced principally by two means: (i) appointing a reputable firm of local auditors to review cash books of, and undertake on-site visits to, implementing partners to assess their system of financial management of IPEC funds; and (ii) the project should undertake a more critical review of cash books.</p>	<p>The Office confirms that the use of local auditors could enhance financial controls in particular circumstances and has used this approach previously. However, given the diverse nature and large number of implementing partners that IPEC works with, use of local auditors on all projects would be very costly to implement. IPEC sometimes works with small implementing partners with limited capacity and under circumstances where conventional book-keeping is a challenge. In such circumstances, one of the aims and outputs of the project is to strengthen their capacity to meet their reporting obligations and improve governance in the longer term.</p> <p>One of the measures to minimize risk of financial loss is to limit the amounts held by implementing partners to four-monthly tranches, replenished only after full accountability of the previous tranche has been rendered by the implementing partner. Each implementing partner is required to keep a separate bank account and cashbook, which are subject to a desk audit. Annual site visits include a review of the cashbooks to verify supporting documentation. The procedures for financial monitoring and site visits to implementing partners are documented and were highlighted during global and regional staff training sessions in 2008 in Turin, Lima and Geneva. Financial controls will continue to be a regular feature in training of all categories of project staff.</p>

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<p><b>Recommendation 7: Paragraph 36</b></p> <p>The Office should develop training and guidance to assist concerned staff in the task of formally assessing the capacity of implementing partners to: deliver ILO programmes; maintain an adequate system to collect and report performance data; and exercise due stewardship over ILO funds. Where deemed necessary, the ILO should provide suitable training and guidance to enable implementing partners to put in place proper systems of control, with periodic site visits by ILO officials to obtain assurance that the systems are maintained and working. Should there be sufficient resources, and a suitable pool of firms available from which to select, projects should consider commissioning a firm of local auditors to review the implementing partners' system of internal control over ILO funds.</p>	<p>A regular training course on project design and implementation based on the <i>Technical Cooperation Manual</i> has been established jointly with the Turin Centre and is offered twice a year, either in Turin or in the field. To date, 190 officials have been trained and at least three additional workshops are planned for the rest of the biennium. A shorter workshop module on project implementation was piloted in Addis Ababa in October 2008 and resulted in greater awareness of technical cooperation procedures. For officials not able to attend live training, a self-guided learning package on project design and implementation planning, also based on the <i>Manual</i>, has been developed and is being piloted.</p> <p>The Office is in the process of preparing new procedures on project cycle management, which will remind managers of their obligation to ensure that implementing partners have the capacity to deliver and, where needed, to integrate any necessary capacity building in the project design process. The Office will study the question of using local auditors and assess the cost benefits of such an exercise given the resources available.</p>
<p><b>Recommendation 8: Paragraph 37</b></p> <p>The Office should also reinforce the requirement that, prior to project implementation, a formal risk assessment is undertaken to determine the major factors that may impact on achievement of project objectives. This should apply to all technical cooperation projects.</p>	<p>The current material in the <i>Technical Cooperation Manual</i> on project design contains a section on assumptions analysis, stakeholder impact analysis and risks to these assumptions. It further requires project designers to internalize critical assumptions that are at risk, or to mitigate or insure against any negative effects.</p> <p>The Office will remind managers of the Internal Auditor's recommendation, and their obligation to carry out adequate risk management in project design. This principle will be further elaborated in a forthcoming Office Procedure on project cycle management and will also be covered under the appraisal procedure of technical cooperation proposals within the first quarter of 2009.</p> <p>During 2009, the Office will further develop the project design chapter in the <i>Technical Cooperation Manual</i> and the related training modules to cover risk assessment and management.</p>
<p><b>Recommendation 9: Paragraph 38</b></p> <p>To strengthen financial control over ILO payments to implementing partners, the IAO recommends that the Office provide guidance and instructions on the most appropriate means of effecting payment taking into account the environment in which the project is operating and reliability of the banking system therein.</p>	<p>The internal requirements for financial controls over payments made in the field are defined in the Financial Rules, in the <i>External Offices Manual</i>, on the FINANCE Intranet and in ILO Circulars.</p> <p>In 2009 efforts will be made to ensure the widest possible dissemination of the procedures in operation notably through inclusion of this topic in regional training workshops. To ensure compliance with established procedures, focused testing on payment methods has been incorporated into the verification plan for the first semester of 2009.</p>

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<p><b>Recommendation 10: Paragraph 40</b></p> <p>The Office should remind all ILO officials, both regular budget and technical cooperation, that, should they become aware of, or have suspicions of fraud or other irregularities occurring, they should inform the Director-General through the Treasurer and Financial Comptroller and the Chief Internal Auditor. This will assist the Office to ensure appropriate action is taken and due process followed.</p>	<p>In September 2007, the Director-General issued an anti-fraud policy that was circulated to all staff. The policy document clearly states the requirement for officials to report any case of fraud, presumption of fraud or attempted fraud to the Director-General through the Treasurer and Financial Comptroller and the Chief Internal Auditor.</p>