



SECOND ITEM ON THE AGENDA

Follow-up to the report of the Chief Internal Auditor for the year ended 31 December 1999

1. At the 277th Session (March 2000) 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 1999.¹ The Chief Internal Auditor's observations and recommendations are addressed below in the order in which they appear in the report.

Headquarters audits

Personal accounts of officials and experts administered by the Payment Authorization Section (PAIE) of the Financial Services Department (FINANCE) in the Support Services Sector

2. The Chief Internal Auditor referred to a number of balances on personal accounts which, for various reasons, were uncleared at the time of his review. Personal accounts are used to administer entitlements of officials and, as noted by the Chief Internal Auditor, these accounts may hold balances over an extended period of time (e.g., education grant advances). A significant share of the advances arise from increased staff mobility and, of the balances cited by the Chief Internal Auditor, some 40 per cent had been cleared within the normal activities of the Payments Authorization Section prior to the receipt of the audit report. Of the remainder, many of these balances represented small exchange differences and mismatching of offsetting amounts, whilst others arose from delays in receiving supporting documentation from officials or external offices. Over 90 per cent of the balances have now been cleared or reconciled and the processing of the remaining balances is ongoing.
3. The internal controls referred to by the Chief Internal Auditor operate within the constraints of existing financial systems and staffing levels. The comments of the Chief

¹ GB.277/PFA/5/1.

Internal Auditor relating to referencing are well known and, where possible, improvements have been made. Other improvements, which require system modifications, will be incorporated in the upgrade of the financial systems. As an interim measure, however, a PC-based payments processing system has been implemented which avoids the double processing of data and reduces the risk of errors and mispostings. The new processing system has also reduced the number of rejected items and has improved the monitoring process. This has resulted in a 15 per cent reduction in the number of uncleared balances.

4. With respect to travel advances, amounts outstanding for no justifiable reason are recovered by the Office. The next release of the travel circular will incorporate the Chief Internal Auditor's recommendation on additional advances. Instructions were circulated to all officials in the Payments Authorization Section, reinforcing the procedures to be followed for departing staff. The comments and recommendations made by the Chief Internal Auditor relating to enhanced supervision, analysis and the documentation of errors have been discussed in detail with officials from the Payments Authorization Section and have already been acted upon.

Insurance administered by the Internal Administration Bureau (INTER) in the Support Services Sector

5. The Chief Internal Auditor reviewed the adequacy of insurance arrangements to determine whether they provide for sufficient compensation to the ILO for the reinstatement, replacement or repair of damage or loss of assets at headquarters. The adequacy of other insurance arrangements, such as those for equipment in transit, cash in transit and third-party liability was also reviewed. Taking into consideration the overall insurance portfolio handled at headquarters and the constraints on resources devoted to the function, insurance administration was assessed as satisfactory. The Chief Internal Auditor recommended, however, that the Office strengthen the resources allocated to insurance administration, and increase the technical training of staff responsible for insurance matters.
6. In 2000, administration of insurances was transferred to a Property Management Unit in PROCUREMENT. The Property Management Unit is responsible for administering insurance contracts and providing guidance to field offices on insurance matters. Training programmes for the staff of this Unit are planned for 2001.
7. Regarding the headquarters building and its contents, the Chief Internal Auditor pointed out that, in the light of the insurance conditions stated in the "fire and all-risks" insurance policy, it appeared that full compensation might not be secured in the event of total or partial damage to the building. The Chief Internal Auditor also recommended that the Office obtain insurance for the removal of debris, which was not covered, and re-examine the adequacy of the one-year period of "loss of rents".
8. In August 2000, the insurance contract for the headquarters building was put out to international tender and bids were received from 14 companies. The insurance contract which was drawn up with the successful bidder included provisions which directly address the Chief Internal Auditor's observations. More specifically, the new contract now covers the full value of the building, which is indexed to the Zurich Construction Index, together with cover for removal of debris. The "loss of rents" period has been extended from one to two years.
9. The Chief Internal Auditor recommended that clear policies be established regarding the definition, preservation and conservation of all materials that constitute "archives" and that insurance should be determined on the basis of a fair estimate of the value of the different components of the archives.

10. The value of the ILO's archives, as currently defined, has been reviewed and increased from US\$13 million to US\$20 million for insurance purposes. The definition of what constitutes the archives is under consideration by the Bureau of Library and Information Services.
11. The Chief Internal Auditor observed that, although the Office had satisfactory security and maintenance arrangements and rules regarding custody of assets and reporting of losses, it would serve the Office to disclose more fully among the staff responsible for the custody and preservation of assets, the pertinent insurance conditions regarding these matters in order to enhance risk awareness. This recommendation has been directly addressed by the preparation of a property and equipment management manual.
12. The Chief Internal Auditor recommended that insurance administration could be further improved by maintaining back-ups of insurance contracts and pertinent documentation in case of accidental loss or destruction of such documents and by developing written work procedures or checklists, which would facilitate the work of current and future staff dealing with insurance matters. New archives, including back-ups of insurance contracts, were established in December 2000 and procedural checklists will be prepared in 2001.
13. The Chief Internal Auditor recommended that self-insurance should be considered where risks could be controlled. As in the previous contract, theft insurance for the headquarters building contents has not been included in the new contract as the high premiums it would have attracted were not considered justifiable in view of the small number of cases of theft at headquarters.

Field audits

Personal accounts of officials and experts administered in external offices under decentralized responsibility from the Financial Services Department of the Support Services Sector

14. The Chief Internal Auditor reviewed travel advance accounts in the field, as well as salary advance accounts for field-based, locally hired staff, and reported weaknesses related to recording settlements and controlling advances. Recommendations were made concerning the clear delineation of officials responsible for the control and supervision of personal accounts, as well as improved training for those officials. Periodical reporting by the regional offices on the status of personal accounts in their regions was also recommended.
15. As with the personal accounts of headquarters officials referred to above, the presence of balances in personal accounts does not necessarily represent a weakness in internal controls. There were, however, a number of outstanding balances requiring follow-up action by the responsible regions, some of which appear to have occurred due to misunderstandings of the appropriate procedures. Regional offices have been formally reminded of their primary responsibility to monitor these personal accounts and have been requested to periodically report on the status of accounts. They have also been provided with recommendations on the role of regional verification units and have received specific instructions relating to the most frequent causes of outstanding balances.
16. Regional training workshops for administrative and finance staff are conducted biennially and include the operation of advance accounts as a standing agenda item. The comments and recommendations of the Chief Internal Auditor will be incorporated in future workshops.

Insurance administered in external offices under decentralized responsibility delegated by the Internal Administration Bureau of the Services Support Sector

17. The Chief Internal Auditor made a number of recommendations concerning insurance administered in external offices under decentralized responsibility delegated by the Internal Administration Bureau of the Services Support Sector. These included improvements in the training of external office staff, together with the issue of guidelines on insurance matters, more frequent insurance valuations of buildings owned by the ILO outside of headquarters, inventory valuations to be made in US dollars for insurance purposes and the regular reporting by regional offices to the Internal Administration Bureau on the status and adequacy of insurance arrangements in their respective regions.
18. During 2000, it was planned to employ an external consultant to carry out a full review of insurance administration in the field, which would give particular attention to the matters raised by the Chief Internal Auditor. This review has had to be postponed, however, and will take place in 2001.

Operational audit of the Regional Office for Arab States (ROAS) and the Multidisciplinary Advisory Team for Arab States (ARMAT)

19. Since the audit review of ROAS and ARMAT which took place in November 1999, financial, administrative and operational procedures in the Regional Office have been substantially improved and internal controls strengthened. Some 80 per cent of the recommendations made by the Chief Internal Auditor have been implemented, and the remaining recommendations are being implemented and are scheduled for completion during 2001.
20. Measures have been taken to improve work procedures for more effective cash forecasting, record-keeping and financial reporting, and registry files have been reorganized to meet the needs of the Regional Office and ARMAT.
21. Staff training and workshops have been organized with the support of headquarters to enhance the preparation, revision and approval of technical cooperation project budgets and these have already shown very positive results. Major efforts have been made to introduce sound planning, monitoring and reporting systems and the preparation of workplans, together with mission plans, and requests for funding are now fully coordinated with headquarters and ARMAT and are systematically reviewed by all the parties concerned prior to finalization.
22. Individual and consolidated workplans designed to address specific objectives are now discussed at national and regional meetings and follow-up responsibilities have been clearly delineated. External collaboration contracts are now closely monitored and the monitoring system is being developed to include assessment of the work performed in relation to the approved work programme.
23. The monitoring and backstopping of technical cooperation projects, including local non-decentralized projects, have been assigned to a specialist in ARMAT and are followed up by the Regional Office. The responsibilities of the Programme Unit within the Regional Office have been redefined and distributed according to the ILO's strategic objectives. Staff have been trained at the Turin Centre and at headquarters so as to ensure effective support and assistance for technical activities.

**UNDP-funded technical cooperation project in Yemen –
YEM/97/300 (Support to Yemen National Poverty
Alleviation Programme under National Execution (NEX)
modality)**

24. Action has been taken to establish a focal point in ARMAT, which will provide the necessary support and back-up to the CTA and the project. This project is now in its final stages and new modalities for technical backstopping will be introduced should the project be extended further.

Monitoring of follow-up action

Staff Health Insurance Fund (SHIF)

25. The Chief Internal Auditor noted that some recommendations linked to the effective implementation of the new Health Insurance Information System (HIIS) remained outstanding and that it was proposed to address these once the system was perfected and the staff trained in its application and new work methods.
26. The Chief Internal Auditor also noted the absence of a formal agreement between the ILO and ITU regarding the operation of the Fund. Indeed, neither the ILO nor ITU nor the Management Committee of the Fund had perceived any need for such a formal agreement. Following the introduction of the HIIS, however, a reorganization of the claims-processing work necessitated a review of the administrative cost-sharing arrangements between the two organizations, and the opportunity has been taken to draw up a formal agreement on these arrangements, which has been signed with ITU.
27. The Chief Internal Auditor noted that the operating procedures of the Fund had not been fully documented. This has now been fully remedied, in connection with the implementation of the HIIS. In the light of the Chief Internal Auditor's comments, the contribution rates for voluntarily protected dependants were reviewed and adjusted in 1997. While no further adjustment has proved necessary, the Management Committee of the Fund reviews these rates annually to ensure compliance with the requirement that coverage for this group of persons be entirely self-supporting.
28. As also noted previously, some improvements in the procedures for the processing of claims had already been made in 1997. These procedures have undergone further significant changes since the introduction of the HIIS, notably through revision of the conditions and procedural requirements attaching to the schedule of benefits. During this process, particular attention has been paid to the role of the Medical Adviser, which has been considerably rationalized.
29. One of the Chief Internal Auditor's recommendations related to the follow-up of the doubtful claims made by members. In the light of the Chief Internal Auditor's comments, the Executive Secretary of the Fund has adopted a more proactive stance in response to such claims, for example by directly contacting providers, or by requesting an ILO field office to make enquiries. Clearly the capacity and competence of the Fund's secretariat to conduct investigations is limited, but where there is objective reason to suspect that a claim may be fraudulent, the matter is immediately drawn to the attention of the Treasurer. Other possible steps aimed at enhancing the Fund's capability to identify and investigate doubtful claims are being considered by the Fund. These could include providing specific training to the Fund's staff and, if appropriate, using the services of professional audit firms.

- 30.** The Chief Internal Auditor identified a need to improve some of the financial accounting and reconciliation procedures. This mainly concerned operations within the ILO/ITU account, which include health-care contributions and expenditure operations, but also operations such as advances, write-offs, compensation recovery from other banks in respect of third-party liability or service-incurred accidents, exchange rate differences and incorrect budgetary imputation.
- 31.** Procedures changed radically with the implementation of HIIS in April 1999, which notably permitted the payment of benefits directly by SHIF to the member's bank account. As from that date, most of the problems noted by the Chief Internal Auditor in 1997 do not occur with the new system, as all operations handled by SHIF (including advances and recovery) are monitored by the HIIS system. There remains an area of difficulty concerning operations which are not made through HIIS. This relates mainly to payments, advances and recoveries made through ILO field offices. The Fund is currently exploring with the Financial Services Department the creation of a new monthly reporting system that will enable the SHIF secretariat to address these difficulties. Furthermore, on the recommendation of the Chief Internal Auditor, a study is under way with the aim of establishing satisfactory procedures for the follow-up of advance accounts and the reconciliation of accounts.
- 32.** The Office will continue to work in close liaison with the Chief Internal Auditor regarding follow-up on recommendations that are in the course of being implemented.

Geneva, 26 February 2001.