



THIRD ITEM ON THE AGENDA

**Report of the Chief Internal Auditor  
for the year ended 31 December 2000**

**Report of the Chief Internal Auditor on  
significant findings resulting from internal  
audit and investigation assignments  
undertaken in 2000**

1. In accordance with the decision taken by the Governing Body at its 267th Session (November 1996), the Director-General transmits herewith the report of the Chief Internal Auditor on significant findings resulting from audit and investigation assignments carried out during 2000 (see appendix).
2. The Director-General considers the work performed by the Chief Internal Auditor to be extremely valuable in assessing strengths and weaknesses in operations, practices, procedures and controls within the Office. Recommendations made by Internal Audit are thoroughly evaluated, and there is constant dialogue between the administrative services and Internal Audit to give effect to them.

Geneva, 27 February 2001.

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## Appendix

### Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2000

#### *Introduction*

1. The Internal Audit Section of the ILO is an independent oversight function which through audit, inspection and investigation processes, determines the adequacy and effectiveness of the Organization's system of internal control, financial management and use of assets. Its aim is to provide reasonable assurance that the activities have contributed to the attainment of the Organization's goals and objectives. More specifically, to achieve this, the Internal Audit section reviews and appraises accounting, administrative and operating controls; evaluates the responsible, efficient and economic use of the Organization's resources; ascertains the extent of compliance with established rules, regulations, policies, procedures and plans; determines the extent to which assets are accounted for and safeguarded from loss; assesses measures taken to prevent fraud, waste and malfeasance; ascertains the reliability of financial and management information; and examines the adequacy of the planning and monitoring system with regard to the operations, functions, programmes and activities within the Organization. Where necessary, the Section makes recommendations to improve their adequacy, efficiency and effectiveness. The Internal Audit Section adopts a proactive approach to facilitating the assessment of risks and controls in support of the management process to enhance efficiency, effectiveness and value for money in the activities of the Organization.
2. During the reporting period, the Internal Audit Section reviewed the administrative, financial and managerial processes of some programmes at ILO headquarters, in the field and at the International Training Centre of the ILO in Turin. One investigation was performed into allegations of irregularities. The Chief Internal Auditor was kept informed of other cases of suspected fraud or irregularities, and of the investigations into them carried out at other levels. The reports of work done are listed in the annex. Reporting is currently being finalized regarding two assignments completed at headquarters and one in the field, which will be conveyed in the next report of the Chief Internal Auditor to the Governing Body.
3. The detailed programme of work for the year was coordinated with the External Auditor and all audit, inspection and investigation findings and recommendations were communicated to the External Auditor.
4. The results of the work undertaken by the Internal Audit Section during 2000 indicate that the overall system of internal control within the ILO was operating satisfactorily and continues to provide reasonable assurance that, in the normal course of business, significant irregularities would be prevented or disclosed if they occur. The Office increasingly recognizes that compliance with regulations, although a fundamental prerequisite, does not always guarantee effective expenditure or operations. In this connection, the management's policy of forging a culture that reflects increased accountability and a results-based outcome to ensure value for money through the best possible use of resources is most relevant.

#### *Field offices*

##### Operations

5. The Chief Internal Auditor found that the Office's directives for better planning and monitoring of work to achieve the goals of the Organization were generally well understood. Efforts were visible in the field offices visited to achieve a better focus and coordination of activities between them and headquarters' units, and more efficient use of resources in meeting the relevant programme objectives for greater impact in the four strategic objective areas of the ILO. The multidisciplinary team in one office had started implementing a new system of "worksheet on local targets" for each

activity, listing the strategic objective, the technical programme concerned, performance indicator/s, resource inputs and outputs. Another area office started planning the work of its staff by strategic objectives and began having regular meetings involving programming and technical cooperation project staff to promote better coordination amongst the various projects and activities. Following upon audit recommendations, both offices undertook to improve further their work planning and monitoring systems. The Regional Office for the Americas, to reinforce its means for direction, control and reporting, has instituted comprehensive work planning and information database systems, accessible on its Intranet to all units in the region. The offices in this region were required to feed in the necessary information to permit more effective evaluation of the results of the various activities at the regional level in meeting the programme objectives, and of their contribution to the ultimate goals of the Organization under its four strategic objectives. They were also required to complete the information database systems with details and results of activities conducted through missions, seminars, workshops, meetings and technical cooperation projects, which are the Organization's main means of action in providing services to the constituents. The Regional Office nevertheless required better monitoring of compliance with its directives, and it reported having already taken the necessary measures to improve control in this direction.

6. The Office informed the Chief Internal Auditor that work planning, monitoring and reporting systems are being strengthened to ensure that the strategic framework is applied throughout the Office and that efforts in both headquarters and the regions are properly coordinated. This will include computer and Intranet support, management training and joint programming exercises. Progress on these points will be followed actively in 2001.
7. In all the offices visited, formal and informal meetings took place regularly to discuss progress, forthcoming activities and the follow-up needed. However, not all offices kept records of the meetings. The Chief Internal Auditor suggested that concise written minutes of staff and multidisciplinary team meetings should be prepared, outlining the issues discussed and providing records of decisions taken and work plan modifications, to facilitate follow-up.
8. Improvements in mission planning systems were required to provide links with approved work plans, and to include cost estimates and funding sources, in order to improve on expenditure forecast and budgetary control within the approved resources. Consolidation of the individual approved mission plans could assist in identifying opportunities for a coordinated approach and economies.
9. Reporting on mission results and the follow-ups required were not performed systematically in one country and following upon audit recommendations, immediate instructions were given to achieve this. In another office, the records did not provide assurance that all staff systematically prepared mission reports, but the mission reports seen gave a substantive account of the activities, results and follow-up required. The monitoring system in one other office needed to be improved to ensure the preparation of mission reports in a timelier manner. One office had a good system for sharing mission results (including those of project staff) through an electronic filing system to facilitate consultation, briefing on the situation in each country and the preparation and updating of country briefs. This is a good practice that should be adopted by all offices, where not yet done.
10. The Chief Internal Auditor recommended that monitoring tools be developed, or improved where they exist already, to more effectively monitor and evaluate the effective and efficient use of resources through missions, workshops and use of external consultants. It would also serve in mission reports to outline the context of the mission in relation to the approved work plans, and to include a section on follow-up performed as a result of previous missions. The information system should link the seminars and meetings approved and conducted to the technical programme and objectives addressed, in addition to providing information on resource inputs, actual costs, attendance and results achieved. Information on external collaboration contracts should also indicate the quality of contract performance and the contribution of the outputs to the objectives of the technical programme concerned.
11. A number of technical cooperation projects were ongoing to support the activities of the ILO to constituents, and a number of projects were found to be in the pipeline. The existing information and reporting systems could be improved to enhance reporting capacity: (i) concerning projects under execution, to indicate the strategic/operational objectives addressed; the actual date the project evaluation took place, the type of evaluation (e.g. self; independent) and a summary of the

evaluation conclusions; and (ii) concerning technical projects in the pipeline, to indicate progress regarding project formulation, budget proposed, government approval, fund-raising efforts, donor approval, budget approved, technical field, strategic/operational objective and planned starting date.

## Administration

12. The control system over bank and cash accounts, including cash in transit, was found to be operating satisfactorily although, in the case of two offices, there was a need for better coordination with responsible units to ensure the prompt updating of the panel of cheque signatories upon staff movement, and to improve follow-up over long outstanding cheques, to curtail risks. The Office was currently examining further improvements for better security arrangements regarding the replenishment system of bank accounts for external offices through the electronic banking system.
13. Accounting for receipts, expenditures and financial reporting were found satisfactory and reliable. One office needed to ensure that all invoices and claims processed are systematically cancelled to avoid risks of double payment. Budgetary controls were operating quite satisfactorily, although with regard to decentralized projects better efforts are required to complete technical cooperation budget rephasings and revisions in a timelier manner. The advance accounts in the offices visited were better monitored.
14. Price comparisons were made for major purchases to ensure the best prices, although one office needed to improve its work practices to better illustrate this control in its procurement activities. There were satisfactory arrangements and controls to ensure the most economical route and price for travel.
15. Assets were properly recorded, satisfactorily controlled and adequately secured; two offices, however, needed to review the adequacy of insurance coverage. The premises were adequately secured, but certain other measures could be taken to reinforce security of staff and assets. Two offices needed to improve their storage plans for back-ups of their computer systems.
16. Personnel matters were satisfactorily handled, but improvement was required in controlling claims for family and dependants' allowances and ensuring the timely establishment of performance appraisal reports.

## ***Audits of technical cooperation projects***

### INS/98/M01/UK: "Workers' Education Assistance to Workers and their Organizations in Indonesia"

17. The project is supporting national efforts to promote sound industrial relations and improve workers' conditions. Its objectives are to develop the capacity of trade unions in Indonesia to organize and administer workers' associations; design, develop and deliver a coherent workers' education programme; participate in collective bargaining and dispute settlements; protect occupational safety and health; and promote equal opportunities. Good progress in delivering project activities was being made, in accordance with approved work plans, which were revised as necessary. The project funds were utilized in a cost-effective manner and there was satisfactory compliance with rules, regulations and established procedures. A mid-term evaluation of the project was being discussed at the time of the audit review.

### PHI/96/M04/NET: "Support to Management of Ancestral Domains of Indigenous Communities of the Philippines"

18. The project belongs to the ILO's Inter-regional programme to support self-reliance of indigenous and tribal communities through cooperatives and self-help organizations (INDISCO). In the Philippines, INDISCO has been working since 1994 with more than 20 different indigenous groups under ten projects. The development objective of the current project, targeting different communities, is to assist them in their efforts to achieve self-reliance through the sustainable management of their ancestral domain claims. The project's immediate objectives address institutional development needs; the promotion of sound indigenous practices for the conservation and utilization of land and natural resources; the promotion of small enterprises, cooperatives and

cooperative-type self-help organizations; and the promotion of the welfare of tribal women. There was satisfactory planning, monitoring and reporting of project activities. Financial and administrative work was satisfactorily handled, and compliance with established rules, regulations, policies and procedures was adequately maintained.

### ***International Training Centre in Turin***

19. The Internal Audit Section reviewed income-generating activities and other income sources (including contributions) and the adequacy of the related accounting and internal control systems, in particular with regard to invoicing and accounts receivable. Internal control over income and receivables was generally satisfactory. The Centre reported that it expected to achieve improvement in the follow-up over accounts receivable by June 2001 with the new Oracles System, which includes an ageing balance feature and also enables the automatic preparation of reminder letters.

### ***Investigations***

20. The Chief Internal Auditor was informed of three cases of suspected fraud or irregularities submitted to the Treasurer and investigated at other levels. The three cases were confirmed. A national project official, who misappropriated project assets, had his service contract terminated; and recovery of the amounts involved was made from entitlements accruing to him. Another project staff member had reported the suspected irregularities. Suspected claims by one official on the ILO/ITU Staff Health Insurance Fund and the Service Incurred Compensations Fund were discovered through the regular claims verification processes; recovery actions regarding benefits paid were being taken. In the third case, an irregular claim duly processed regarding entitlements to travel benefits was subsequently uncovered by a field office control. The amount overpaid was recovered from salary. The Committee on Accountability examined all the cases. Disciplinary proceedings were under way regarding the last two mentioned cases.
21. The Internal Audit Section was requested to investigate allegations that a manager favoured suppliers in two procurement cases, practised illegal activities and made use of official vehicles for private purposes without reimbursement. The investigation findings and certifications from external sources did not support the allegations, but the use of the office vehicles for some private errands was confirmed. The conclusions of the Chief Internal Auditor on this case, considered by the Director-General have been referred to the Human Resources Development Department for the necessary action.

### ***Monitoring of follow-up action***

22. The summary below provides information regarding the action taken by management on the recommendations resulting from work assignments undertaken in 1999, as included in the report of the Chief Internal Auditor for 1999 and considered by the Committee in March 2000.<sup>1</sup> It also gives the status regarding recommendations outstanding from previous years. The improved monitoring system instituted by Internal Audit at the beginning of 1999 and the enhanced follow-up by management on Internal Audit recommendations contributed to the receipt of comprehensive reports of the actions taken to implement them. After an evaluation, and in consultation with the concerned managers, recommendations are in draft to enhance the monitoring of effective application of the recommendations regarding distant field units.
23. Regarding recommendations made in 1999, after the review of insurance administration at headquarters and in the field, the Office efficiently implemented the recommendations to improve insurance coverage for the headquarters building and contents, and it reported that it was planning to complete the remaining recommendations in 2001. Concerning the review of control over personal accounts at headquarters and in the field, the Office reported having taken a number of actions to clear old balances and to improve the control and monitoring systems to prevent reoccurrences. It further reported that instructions issued for increased clerical and supervisory

<sup>1</sup> GB.277/PFA/5/1.

controls will be consolidated in 2001. Periodical reporting on the status of accounts, and training for the responsible field staff on specific matters, are also in the pipeline. The Regional Office for Arab States (ROAS) and the Arab States Multidisciplinary Advisory Team (ARMAT) reported having implemented a significant proportion (some 80 per cent) of the recommendations, and that they plan to complete the implementation of the remaining recommendations during 2001.

24. Regarding past outstanding recommendations, the new travel circular, which is being finalized, has incorporated the recommendations of the Chief Internal Auditor. The Human Resources Development Department is now planning to fully document work procedures in manuals and to consolidate current policies in the main personnel circulars as part of the new human resources strategy. It expects to complete the updating of the External Offices Manual this year. The Management Committee of the joint ILO/ITU Staff Health Insurance Fund reported having satisfactorily implemented all recommendations,<sup>2</sup> except for the establishment of satisfactory procedures, in consultation with financial services, for the follow-up of advances and reconciliation of accounts. A recent audit (reporting in process) concluded that improvement was still required in these areas.

Geneva, 26 February 2001.

<sup>2</sup> GB.268/PFA/3

## Annex

### List of reports issued in 2000 and reports in process for 2001

1. Audit of the Income and Accounts Receivable of the International Training Centre of the ILO in Turin.
2. Audit of the ILO Area Office and the South-East Asia and the Pacific Multidisciplinary Advisory Team (SEAPAT) in Manila.
3. Audit of the ILO Regional Office for the Americas (ROAM) and of the Andean Multidisciplinary Advisory Team in Lima.
4. Audit of the ILO Caribbean Office and of the Caribbean Multidisciplinary Advisory Team (CMAT) in Port-of-Spain.
5. Audit of the ILO Area Office in Jakarta.
6. Desk review of the implementation of recommendations by the Regional Office for Arab States (ROAS) and of the Arab States Multidisciplinary Advisory Team (ARMAT).
7. Audit of the Technical Cooperation Project INS/98/M01/UKM, "Workers' Education Assistance to Workers and their Organizations in Indonesia".
8. Audit of the Technical Cooperation Project PHI/96/M04/NET, "Support to Management of Ancestral Domains of Indigenous Communities of the Philippines".

### Reporting in progress at end 2000

9. Audit Report of the ILO Regional Office for Asia and the Pacific (ROAP), the ILO East-Asia Multidisciplinary Advisory Team (EASMAT) and the ILO Area Office in Bangkok.
10. Audit of the ILO Cooperative Branch at headquarters.
11. Audit of the transitory accounts of the ILO/ITU Staff Health Insurance Fund (SHIF).