



#### FOURTH ITEM ON THE AGENDA

### **Follow-up to the report of the External Auditor on the accounts for 2000-01**

1. At the 283bis Session (June 2002) of the Governing Body, the Committee considered the report of the External Auditor on the accounts of the 2000-01 financial period. The report of the External Auditor included recommendations and observations in three areas of change and development: the impact of the major staff reclassification exercise, the introduction of strategic budgeting, and the developing role of internal audit. It also included, under financial matters, a recommendation on the administration of staff appointments and highlighted some earlier observations on the Staff Health Insurance Fund (SHIF).
2. It is recalled that all the recommendations in the report of the External Auditor for the financial period 2000-01 have been accepted by the Director-General. The follow-up on the recommendations is provided, for information, in the appendix.
3. The Director-General will continue to work in close liaison with the External Auditor on the follow-up of his recommendations, as he attaches great importance to them and wishes to derive full benefit for the Office from the management audit work performed by the External Auditor.

Geneva, 23 January 2003.

## Appendix

### Action taken in response to the recommendations made in the External Auditor's report on the 2000-01 accounts

Recommendation	Response from ILO management
<b>Review of the reclassification exercise</b>	
<p><b>Recommendation 1:</b> To ensure that appropriate grading and classification is applied in relation to newly recruited staff and any non-regular budget positions, I recommend that further training be given to all managers who in future would be required to undertake a similar matching exercise.</p>	<p>The need to improve management training was recognized by HRD prior to the audit report and was implemented for the subsequent field baseline-matching exercise. Most field directors received training in grading practice prior to embarking on the exercise. HRD has also conducted seven job-grading workshops for managers in Geneva during the months of July and September 2002. Altogether, 37 managers participated in the workshop. The workshop provided a forum for managers to exchange their experiences in job grading, and at the same time to achieve mutual understanding of, and foster commitment to, the new job-grading methodology. This training will continue in order to ensure that all officials with management responsibilities receive necessary training.</p>
<p><b>Recommendation 2:</b> I recommend that in any future exercises, HRD consider carefully the adequacy of planning and implementation timetables.</p>	<p>As a result of experience gained during the headquarters exercise, longer time-scales were implemented for the field grading exercise, which is now substantially completed.</p>
<p><b>Recommendation 3:</b> I further recommend that the ILO consider whether there would be merit in carrying out a retrospective evaluation of the reclassification exercise to confirm the consistency of application of the generic job descriptions; and also review the procedures for consistency of application of generic job descriptions in any future exercises.</p>	<p>The evaluation of the reclassification exercise will be carried out as a part of the review of the ILO HR strategy which was introduced in November 1999. In the meantime, procedures for ensuring consistency in the future have been considered in the implementation of the Grading Agreement which was signed by the Office and the Staff Union in April 2002. HRD has developed draft internal procedures for this purpose and these will be finalized following consultation with the Staff Union.</p>
<p><b>Recommendation 4:</b> Since the Independent Review Group is an arbitration body in both the baseline agreement and the collective bargaining agreement with the Staff Union, and may be involved in future resolution of disputes, I recommend that the ILO produce formal terms of reference for the Group as a matter of priority.</p>	<p>The terms of reference for the Independent Review Group (IRG) has been drafted and are currently being discussed with the Staff Union.</p>
<p><b>Recommendation 5:</b> As a matter of good budgetary and financial management practice, I recommend that any future exercises should be fully costed in advance of approval being sought from the Governing Body.</p>	<p>The primary objective of the reclassification exercise was the introduction of fairness and the financial outcome could not have been accurately predicted. However, as suggested by the External Auditor, the Office recognizes that a range of cost estimates could be developed in such instances to better support budget and financial planning.</p>

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**Recommendation**


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**Response from ILO management**


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**The introduction of strategic budgeting**


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**Recommendation 6:** I recommend that the ILO reconsider the usefulness of high-level performance indicators covering the important support and management functions.

Based on discussions with the Governing Body in November 2000 and March 2002, the Office developed an operational objective covering management services, support services, the Relations, Meeting and Documents Services Department (RELCONF) and the Development Cooperation Department (CODEV). In addition, six indicators have been developed and the details included in the 2004-05 Programme and Budget document.

It is intended to measure performance in the management and support units in terms of definite, service-linked outcomes through client satisfaction surveys and benchmarking. Data on client satisfaction will be obtained through periodic internal surveys of ILO staff in the technical sectors and field offices. Benchmarking will involve comparing the ILO's performance in specific areas with that of comparable agencies.

**Recommendation 7:** I commend management for their delivery of training to staff; and I recommend that training courses and material should continue to be made available to all staff at headquarters and field locations, to facilitate the widest participation on the strategic budgeting process.

After several pilot exercises in October and November 2001, training has been delivered to four regions and to a range of headquarters technical and support units. Training is continuing with the goal of reaching all professional staff by the end of 2003. Training workshops will be organized by staff members of PROGRAM and the regional programming units, all of whom were trained by mid-2002. Relevant training material is available on the ILO Intranet.

**Recommendation 8:** I recommend that management ensure that any developing systems should be compliant with the principles of the Enterprise Resource Planning system and its standards to permit data sharing and to avoid duplication and waste of resources.

PROGRAM is working in close collaboration with the IRIS project to ensure that strategic budgeting functionality will be incorporated in the Enterprise Resource Planning (ERP) system and any possible duplication avoided.

**Recommendation 9:** I recommend that management ensure that sufficient resources are available to analyse and make use of data produced from performance indicators in a timely manner and as part of the normal budgeting process.

Funding has been earmarked from the 2000-01 surplus for staff training and the design of management tools for performance evaluation. As the quality of performance data improves, the Office will be able to analyse this data using regular budget resources. Performance reporting to senior management is currently under discussion based on a sample report.

**Recommendation 10:** I recommend that management establish systems for estimating the cost of recording and collating the different types of performance information, to ensure that costs incurred do not outweigh the benefits received from the information.

The Office is of the view that, to the extent possible, performance measures should be based on data that is collected on a regular basis, rather than on special, one-time surveys and analyses. The evaluation strategy submitted to the November 2002 Governing Body session sets out guidelines for the evaluation of technical cooperation programmes. These guidelines include measures to ensure that budgets for project evaluations are proportionate to the size of the total budgets and are recorded separately to facilitate monitoring of the costs incurred. The Office will return to this issue once the IRIS project is more advanced, as the new system will result in important changes in the ways that performance information is recorded and collated.

Recommendation	Response from ILO management
<p><b>Recommendation 11:</b> I recommend that the ILO's evaluation strategy should provide for independent review and evaluation of all performance indicators, with the results being reported to the Governing Body.</p>	<p>PROGRAM has developed a comprehensive evaluation strategy for the ILO which was discussed at the November 2002 Governing Body session. The strategy takes into consideration the need for independent monitoring and evaluation of organizational performance. At present, the Office has two main methods of reporting on performance. The annual Implementation Reports (of which the first two, for the 2000-01 biennium, have now been reviewed by the Governing Body), and the scheduled evaluation of eight InFocus programmes which were presented to the Governing Body in November 2002.</p>

### Review of the Office of Internal Audit and Oversight

<p><b>Recommendation 12:</b> A systematic, forward-looking methodology for the assessment of risk is especially important to an organization such as the ILO in a period of implementing significant changes in its operations, structure and activities. I recommend therefore that the Office of Internal Audit and Oversight develop a formal and systematic risk assessment methodology to underpin their work and inform their coverage.</p>	<p>As noted by the External Auditor, the workplan of the Office of Internal Audit and Oversight (IAO) for its internal audit activities in 2000-01 was derived from a comprehensive needs assessment based on audit findings and results of past biennia. This exercise revealed risk areas and also highlighted functions which had not been covered in the past. These included work planning, monitoring and evaluation, and the need to improve performance measurement in line with the strategic budgeting process. Audit scope was thus increased to cover the overall system of internal control rather than limiting audit activities to assessing financial and administrative controls. The briefings and advice provided to management at headquarters as well as regional and country offices addressed main risk areas identified and supplemented audit recommendations. Results of risks assessment are now documented on a more formal basis and will be considered when determining audit coverage in IAO's future workplans.</p>
<p><b>Recommendation 13:</b> I recommend that IAO develop a more comprehensive audit plan to cover each biennial period. This should set out defined objectives and outputs, with corresponding resource and timing requirements.</p>	<p>The audit workplan has traditionally covered a one-year period, particularly since the reporting on audit activities to the Governing Body is made annually, but this does not preclude the development of a biennial workplan. Biennial audit plans will be prepared as from the next biennium (2004-05). The 2002 workplan of the Office of Internal Audit and Oversight allocated available staff and travel resources to specific audit activities and indicated the time required for these activities. This process ensures the cost-effective deployment of resources and will be continued. Audit objectives, outputs and scope will in future be incorporated in an annex to the workplan (starting with the 2003 workplan), in order to provide more detailed information for senior management.</p>
<p><b>Recommendation 14:</b> I also recommend that the IAO finalize and adopt an internal audit manual as a matter of priority, to assist the maintenance of appropriate standards and consistency in audit assignments, to inform the planning and execution of activities, and to structure and guide the internal audit team's work.</p>	<p>The preparation of an internal audit manual has been planned since 1999. Although some work has been done, progress has been hampered by a lack of staff resources which continued in 2002. The Chief Internal Auditor recognizes that an internal audit manual is an important tool which will institutionalize the internal audit approach and procedures and a progress report on the development of this manual will be included in his report to the Governing Body in March 2004.</p>
<p><b>Recommendation 15:</b> I recommend that IAO consider whether audit reports could include estimates of cost savings that might be achieved as a result of recommendations being implemented.</p>	<p>To the extent that they can be determined, IAO will provide estimates of cost savings that might be derived by the Office from implementing internal audit recommendations in future audit reports.</p>

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**Recommendation**


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**Response from ILO management**


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**Recommendation 16:** I recommend that IAO should introduce a systematic methodology for the prioritization and follow-up of recommendations to management.

Guidance to management will be provided to ensure that the most significant audit recommendations are given priority in future. A separate timetable for the completion of other recommendations will also be made available.

**Recommendation 17:** I recommend that, in addition to the existing annual reporting, IAO should submit a biennial audit plan and a biennial report of the results of their work (linked to the biennial plan) to the Director-General and to the Governing Body.

A biennial audit plan will be submitted to the Director-General as from the next biennium. As regards reporting, in accordance with Financial Rule 14.30(v), the Chief Internal Auditor submits a summary report annually to the Director-General, with a copy to the External Auditor, on internal audit activities of the previous year, their orientation and scope and the implementation of status of recommendations. This summary report is submitted to the Governing Body by the Director-General with any comments thereon as he deems appropriate. A biennial report linked to the biennial plan would need to be given careful consideration in order to avoid repetition of work and results already communicated in the annual reports.

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**Staff Health Insurance Fund (SHIF)**


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**Recommendation 18:** In the interests of good governance and accountability, I urge the ILO to address my earlier recommendations as soon as possible. The earlier recommendations were:

*The ILO should review the legal and constitutional status of the Staff Health Insurance Fund and its relationship with the sponsoring bodies. The review should also consider whether the ILO should continue to include SHIF fund balances in its accounts.*

A comprehensive review of the legal and constitutional status of SHIF was undertaken by the Office of the Legal Adviser. The conclusions reached by this review have been shared with the SHIF Management Committee, the ITU and the External Auditor. In summary, the review concluded that the SHIF is, in most respects, independent from the ILO. The review also concluded that SHIF fund balances are in the custody of the ILO and should therefore continue to be included in the accounts of the Office.

*The ILO should clarify the auditing and reporting arrangements for SHIF, including the arrangements for auditing ITU benefit expenditure.*

The Office has recommended to the SHIF Management Committee that for reasons of efficiency and economical use of resources, the ILO's External Auditor should be appointed as auditor of SHIF. The ILO External Auditor could coordinate his work with his counterpart in the ITU to ensure that a full and proper audit is carried out. It is the Office's understanding that discussions have taken place between the two external auditors and the SHIF Management Committee in order to implement such arrangement.

*The ILO should continue to keep under review the potential costs and benefits of outsourcing the operation of SHIF.*

Two studies were undertaken in 1990 and 1997 concerning re-organization and rationalization of SHIF operations. However, the possibility of subcontracting SHIF administration to an outside firm has never been examined. Following the concerns which have been expressed by the SHIF Management Committee regarding the claims processing function, HRD decided to explore the subcontracting option of this function with a view to considering potential costs and benefits. A survey of three external contractors that are providing claims processing services to other international organizations was undertaken. The results of this survey will be submitted to the SHIF Management Committee for consideration.

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**Recommendation****Response from ILO management**

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**Administration of staff appointments**

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**Recommendation 19:** Therefore I recommend that the ILO ensure that all necessary contract actions are finalized before the commencement of employment.

Following a comprehensive review of the use and administration of employment contracts in the ILO, HRD issued a circular in July 2002 which referred to the late finalization of contracts. The circular requires that personnel action requests are submitted to HRD at least two weeks prior to the date of entry on duty of the official, or before a proposed extension of the official's contract is to take effect. This should ensure that all necessary contract procedures are finalized before the commencement of employment.

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