



FOR INFORMATION

ELEVENTH ITEM ON THE AGENDA

**Follow-up action to the report of the
Chief Internal Auditor for the year
ended 31 December 2004**

1. At the 292nd Session (March 2005) of the Governing Body, the Committee considered the report of the Chief Internal Auditor¹ on significant findings resulting from internal audit and investigation assignments undertaken in 2004. This paper addresses follow-up action taken by the Office on the Chief Internal Auditor's 2004 recommendations.
2. The Internal Auditor's overall assessment for 2004 was that there was no material weakness in the ILO's overall system of internal control. His recommendations for improvements in the areas covered by the report are set out in the appendix to this paper, together with the Office's 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, 3 February 2006.

Submitted for information.

¹ GB.292/PFA/3.

Appendix

Action taken in response to the recommendations made in the Internal Auditor's report for 2004

Recommendation	Response from ILO management
Audit of the ILO Programme on HIV/AIDS and the World of Work	
<p>The programme should improve its follow-up system to ensure that expenditures at field level against financial authorizations are reported in the general ledger on a timely basis.</p> <p>Modifications should be made to the work planning and monitoring system of the programme to improve further its means to report results against plans, objectives and targets.</p>	<p>The programme has introduced a mechanism to ensure that expenditure levels are regularly checked with project staff and through the IRIS system. Monitoring procedures are now standard for technical cooperation projects and a new system is being developed to track application of the ILO code of practice on HIV/AIDS and the world of work. The recently-appointed Director of ILO/AIDS is reviewing and revising the procedure for work planning and resource tracking.</p>
Financial audit of a terminated project in Africa	
<p>The ILO should follow up with the donor to avoid incurring financial loss.</p>	<p>As soon as the Office became aware of the situation, a full review was carried out and revised financial statements were sent to the donor. The results of the review indicated that a potential deficit of US\$162,214 had been incurred on the project, which had resulted from late receipt of expenditure documentation. This had arisen due, in part, to the disruption in administrative activity linked to the security situation in Abidjan and the resulting staff relocations. Work continues with the donor to ensure full funding and recovery of the amount involved.</p>
IOV and project suspense accounts	
<p>Improved budgetary control for technical cooperation projects, including monitoring expenditure reported against financial obligations, should be achieved through appropriate work distribution.</p> <p>Expenditure incurred should be monitored against payment authorizations issued, following up with the project, as necessary, on long-standing obligations in the project accounts against which no expenditure is reported or appears to be incomplete. To implement this, training for secretarial and other support staff is required.</p>	<p>Closer and more effective monitoring of project accounts by project management and their support personnel is essential to ensure the efficient delivery of project activities. This requires appropriately trained officials to be available to project management to assist them in their financial administration responsibilities.</p> <p>Discussions have commenced with the Human Resources Department to utilize a part of the increase in staff training and development funds to prepare and deliver this very important need.</p> <p>With respect to suspense accounts, these are, by their very nature, transitory accounts which are necessary as part of the complex accounting mechanism required to record and control project expenditure. Close monitoring of these accounts is however essential to ensure that they are cleared in a regular and timely manner. This has been discussed with Regional Offices and the need for closer monitoring has been stressed with the units responsible for verifying expenditure and ensuring that expenditure is correctly allocated. The implementation of IRIS has allowed the ILO to review its headquarters and field information needs and work is under way to produce revised reports from the system to highlight anomalies in future. Regional Offices have invested a considerable amount of time in 2005 to minimize balances held in suspense accounts. As at 31 December 2005, IOV suspense account balances have been reduced in most cases, when compared to 1 January 2004.</p>

Recommendation

Response from ILO management

Audit of IPEC projects in Bangladesh and Pakistan

IPEC is intending to develop guidelines concerning the implementing partner selection process, and the IAO recommended that elements of the selection process followed by the project in Bangladesh should be considered for inclusion in such guidelines.

The IAO recommended that IPEC Geneva should provide guidance on methodology and minimum documentation required to demonstrate that a reasonable price has been obtained when selecting implementing partners.

The Office should seek to negotiate with donors a mechanism to provide funding for evaluation of major projects at some future date after completion of the projects.

ILO-IPEC (through the respective ILO offices as necessary) should liaise with the concerned ministry of labour to promote more periodic meetings of the committees with regard to their governance responsibilities and have the periodicity of the meetings stated in their terms of reference.

Audit of field offices

An effective planning and monitoring system is a necessity to ensure realistic outputs and targets are set by matching available resources to planned activities, and to measure progress towards meeting the ILO's strategic and operational objectives. The work planning system implemented at unit level should complement the newly implemented ILO Strategic Management Module to facilitate the reporting of results.

Islamabad Office – Auditorium roof. The IAO recommended that the Office should consult with the Internal Administration Bureau and the Treasurer for a decision regarding the work needed and funding arrangements.

IPEC is currently working with PROCUREMENT and FINANCE on a new, single and consolidated version of the circulars on procurement and contracting. It is intended that the new circular will be more operational in nature and that aspects such as selection process, the assessment of offers and the supporting documentation will be covered in more detail.

Post-project evaluations are a more appropriate way of assessing sustained achievement of the project and can, in principle, replace end-of-project evaluations and be included in the project budget. However, as mentioned in previous comments from IPEC to audit reports, this requires appropriate funding arrangements to allow for the post-project evaluation to take place after all activities have ceased and the budget is closed. Post-project evaluations are also a key part of building an overall knowledge base on which interventions are likely to have the most lasting impact. Although numerous attempts have been made to obtain donor funding for such evaluations, to date, this has not been readily forthcoming.

IPEC also carries out tracer studies that look back at a project two to three years or more after completion, to determine longer-term impact on the beneficiaries. Funding for these studies is included in subsequent phases of a project or other projects in the country, either funded by the same donor to demonstrate long-term impact or by other donors as part of building a knowledge base that shows which type of interventions result in the most impact.

IPEC's Programme and Operations Manual includes guidelines for the functioning of the Steering Committee and requires a minimum of three meetings per year. Liaison and negotiation with government ministries on compliance with these guidelines is the responsibility of the field offices in the respective regions, in cooperation with the ministries concerned. As appropriate, IPEC staff also participate in discussions of Steering Committee issues directly with the government ministries. To address the particular observation raised by the Internal Auditor, IPEC and the Office Director have held consultations with a view to promote more regular meetings of the Steering Committee.

The Strategic Management Module in IRIS has now been implemented in all offices and units at headquarters. This module provides the basis for work planning within each work unit and procedures are in preparation to introduce work planning and monitoring based on information available in the Strategic Management Module.

Contracts for the required work have been issued and materials purchased and delivered to the project site. Following an earthquake, studies were necessary, prior to commencing the work, to determine whether any structural damage had occurred.

Once it had been determined that there were no structural issues, work was rescheduled for early 2006.

Recommendation	Response from ILO management
Lima and Islamabad offices	
<p>The Internal Administration Bureau should ensure a costed rolling maintenance plan is developed for each ILO-owned premises and funding is earmarked for the purpose in the regular budget.</p>	<p>Regular maintenance costs are included as part of the regular budget for each office. Proposals were made to the Governing Body in November 2005 for the funding of major maintenance and refurbishment needs. It will be for the Governing Body and the Conference to consider these proposals in the context of the 2008-09 programme and budget debate.</p>
International Training Centre of the ILO	
<p>To improve its cash flow and cash management system, the IAO recommended that the ITC consider organizational and workflow changes to address the continual delays in raising an invoice, and it should seek to obtain advances from sponsors as a matter of policy with any exceptions being justified in writing and waived only on the authority of the Treasurer of the Centre. The ITC also needed to take a more aggressive and structured approach towards follow-up of debtors.</p>	<p>Advance payments are always requested, although some of the sponsors' own procedures do not permit advances. Unfortunately, many sponsors require final statements/invoices based on actual costs before making any payments. Others only make advance payments if covered by bank guarantees, the cost of which almost cancels any eventual interest earned on advance payments. The rare exceptions are now authorized in writing by the Treasurer of the Centre.</p> <p>The debt collection system has been improved and programme managers are now actively involved in the collection process. As recommended by the Chief Internal Auditor, invoices are now attached to all reminders.</p> <p>The financial system will be modified to enable three levels of reminder letters (together with copies of invoices attached) to be raised automatically from the system for all overdue invoices.</p>
<p>The Centre, on the basis of its practices, and taking into account the recommendations made by the IAO, should document its cash management policy and procedures to ensure continuity of practices and controls on staff turnover.</p>	<p>As from 1 January 2006, staffing has been reinforced by an internal transfer of a professional staff member whose main objective is to document all financial procedures including those concerning cash management policies and procedures.</p>
<p>As the euro is the currency ITC mainly uses to conduct its economic activity, the Centre should investigate the possibility of budgeting and reporting in euros.</p>	<p>A paper will be prepared for approval by the Board in November 2006 recommending the change of the reporting currency to euros.</p>