



**FOR INFORMATION**

THIRD ITEM ON THE AGENDA

**Follow-up to the report of the Chief  
Internal Auditor for the year ended  
31 December 2005**

1. At the 295th Session (March 2006) of the Governing Body, the Committee considered the report of the Chief Internal Auditor<sup>1</sup> on significant findings resulting from internal audit and investigation assignments undertaken in 2005. This paper addresses follow-up action taken by the Office on the Chief Internal Auditor's 2005 recommendations.
2. The Internal Auditor's overall assessment for 2005 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, 22 January 2007.

*Submitted for information.*

<sup>1</sup> GB.295/PFA/12.

## Appendix

### Action taken in response to the recommendations made in the Internal Auditor's report for 2005

Recommendation	Response from ILO management
<b>Remove PROCUREMENT from INTER</b>	
PROCUREMENT should be removed from the Bureau of Internal Administration, set up as an independent section within the Management and Administration Sector, and have its reporting line changed.	Effective 1 January 2006, the PROCUREMENT Section was established as an independent bureau reporting to the Treasurer and Financial Comptroller.
<b>Procurement manual</b>	
The various procurement instructions and guidelines found in circulars should be consolidated in a procurement manual, providing clearer guidance on each type of procurement and on each stage of the procurement process, to obtain better comprehension of the applicable rules and thus improved compliance and transparency of processes. The manual should be compiled in such a way as to facilitate training and briefing in procurement matters.	The process of revision and consolidation of the various procurement circulars, instructions, rules and guidelines has commenced. This is part of an Office-wide initiative to review circulars and to implement an improved mechanism for issuing Office directives and guidelines. A new procurement manual is being drafted, which will codify existing circulars; provide clearer guidance on each type of procurement and the pertinent procedures to be followed; and facilitate training and briefing in procurement matters. The manual will also incorporate reforms being implemented throughout the UN system in order to enhance governance and transparency, and to improve compliance. Taking account of staff changes in the PROCUREMENT Section, completion of the manual is foreseen for late 2007.
<b>Improvements to procurement guidelines</b>	
Improvements required to procurement guidelines and instructions should incorporate: (i) the revised composition and working practices of the Contracts Committee; (ii) the revised threshold for submissions to the Contracts Committee; and (iii) procedures, steps and criteria that should be followed to select qualified IPEC implementing partners for IPEC subcontracts to qualify for the global waiver.	<p>The composition of the Contracts Committee was revised by the Treasurer with effect from 3 January 2005. In addition, the Contracts Committee has revised its working practices in order to facilitate a more comprehensive review of all procedures preparatory to the execution of contracts by the Office.</p> <p>The threshold for submissions to the Contracts Committee has been increased pursuant to Circular No. 65, Series 8, dated 22 October 2003, and is in line with thresholds in other UN bodies. The provisions of this circular will be incorporated in the new procurement manual.</p> <p>Chapter 3 of the IPEC Programme Operations Manual has been updated to provide additional guidance on the selection of implementing partners and the documentation of the process. The new text reinforces the need for a competitive process in the absence of competitive bidding. A flowchart containing the steps in the process has also been developed as an additional guide. The selection process form has also been updated in response to a recommendation from the External Auditor.</p>
<b>PROCUREMENT performance indicators</b>	
PROCUREMENT's mission statement and performance indicators should both be improved to bring them more into line with PROCUREMENT's mandate and objectives of ensuring and overseeing that goods and services across the ILO are procured in an efficient, economic and transparent manner and in compliance with rules and regulations.	<p>PROCUREMENT's mission statement has been revised in order to more closely reflect PROCUREMENT's mandate of ensuring that goods and services are procured globally by the Office in an efficient, economic and transparent manner and in compliance with relevant rules and regulations.</p> <p>As part of the Management and Administration Sector's initiative to establish performance indicators, revised and improved indicators were established in July 2006.</p>

Recommendation	Response from ILO management
<b>Declaration of ethical responsibilities</b>	
ILO officials designated as responsible for procurement activities, both at headquarters and in the field, should be required to sign annually a declaration of ethical responsibilities.	An annual declaration on principles and requirements for ethical conduct of procurement officials was introduced on 17 February 2006. All officials of the PROCUREMENT Section have complied with this requirement.
<b>Office-wide standard for work planning</b>	
Considering the inadequacies and variances in work planning systems and the growing importance of field offices and their activities in the Office strategy, the Chief Internal Auditor recommends: (i) that the Office adopt the best workplan design available in the field and standardize the unit workplan format (while ensuring it is user friendly) for Office-wide use; and (ii) requires directors of Regional Offices to oversee due execution of local work planning and monitoring systems.	In the context of Decent Work Country Programmes and UNDAF, the Office has reviewed implementation planning and reporting procedures. In particular, the Office has examined the requirements for a new biennial implementation plan that would be compatible with UNDAF requirements, with IRIS/SMM functionality and with monitoring and evaluation procedures. Experience of other UN agencies has been explored. A major requirement has been to streamline existing multiple reporting requirements. By early 2007, the Office will have determined a uniform procedure and format for an IRIS/SMM-supported implementation plan that would also serve as the basis for an annual workplan and implementation report.
<b>Reports for field offices</b>	
Pending the rolling out of IRIS to the field, the Office should develop the functionalities to provide monthly reports regularly to external offices on all general ledger accounts.	A report providing information on all legacy general ledger account transactions was implemented in May 2006. Two additional reports that provide an improved and full overview of the field accounts were published at the end of 2006. These reports are now regularly made available to all field offices and can be accessed remotely by external office staff.
<b>VAT reimbursements</b>	
The Office should require the Regional Office for Africa to instigate a system to monitor levels of value added tax recorded on the general ledger accounts throughout the region, and take appropriate follow-up action as necessary to ensure all receivables are timely and regularly collected.	The Africa Regional Finance Unit has instituted a quarterly system of checks to ensure each Africa region ILO field office has submitted the necessary value added tax reclaim documentation and is following up the collection of sums due.  This audit recommendation focused primarily on VAT reimbursements, due from the Government of South Africa, which are being managed by the ILO Office in Pretoria. The Pretoria Office successfully completed negotiations with the Government of South Africa to extend the date for submission of claims. These claims have been submitted. Mechanisms are now in place at the office, regional office and headquarters levels to ensure that claims are submitted on a timely basis and amounts are reimbursed.
<b>Move project RAF/03/20/USA to Pretoria</b>	
The administration of the technical cooperation project "Improving labour systems in southern Africa (ILSSA)" (RAF/03/M20/USA) should be transferred from ILO-Lusaka to ILO-Pretoria – where the responsible manager is located – to remove cumbersome administrative procedures, improve the efficiency of the project operations, as well as generate savings on communication, including travel and communication costs.	This project was created in 2004 and was associated with project RAF/01/55M/USA (SLASA), launched in 2002. Upon creation, RAF/03/M20/USA was decentralized to Pretoria. The original project, RAF/01/55M/USA, had originally been administered by Lusaka.  After discussions with the donor, the Office merged the management and administration of the two projects in Pretoria. The donor did not want the two project budgets merged so both projects had to remain open in the financial systems of the Office.  RAF/01/55M/USA is now in the process of being closed following the completion of project activities in 2006. RAF/03/M20/USA will continue to be managed by the ILO Office in Pretoria.

Recommendation	Response from ILO management
<p><b>New investigation unit in the Office of Internal Audit and Oversight (IAO)</b></p>	
<p>The Office should strengthen the investigation capacity of the ILO by creating a specialized and dedicated investigation unit within the IAO, staffed with two professionals with fraud investigation certification and experience (one responsible chief and an assistant) and one support staff.</p>	<p>An audit needs assessment has been undertaken by the Internal Audit Office drawing upon a risks analysis. The assessment included consultations throughout the Office, in particular with administrative departments. The assessment identified gaps in the investigation and IT areas. Rather than a separate investigation unit, a more broadly strengthened Internal Audit Office is proposed as a more effective use of resources. The Director-General's Programme and Budget proposals for 2008–09 include a real increase of US\$575,000 as an initial step towards strengthening this Office.</p>
<p><b>System to compile data on seminars and workshops</b></p>	
<p>As regards a past recommendation that the Office compile information on seminars and workshops for reporting and monitoring purposes, it was agreed, during discussions, that a web-based format would be most suitable to capture all the information recommended by the Chief Internal Auditor. The Office should, in this respect, examine the system established in the Regional Office in Lima for dissemination throughout the ILO.</p>	<p>As a short-term solution in anticipation of IRIS implementation in field offices, the Office has examined the system established in the Regional Office in Lima for dissemination throughout the ILO. A technical evaluation and consultations with regions as to business requirements are taking place to determine how best to make the system available to the other regions.</p> <p>A long-term solution will be developed as part of the redesign of the IRIS travel application in 2007.</p>
<p><b>Reporting on external collaborator contracts</b></p>	
<p>The Office should speed up the development of reports on external collaboration contracts from IRIS for reporting and monitoring purposes.</p>	<p>The Office has now developed reports to provide statistical data on the use of external collaborators and also to assist management in monitoring the use of this form of contract.</p>