INTERNATIONAL LABOUR OFFICE

Governing Body

Programme, Financial and Administrative Committee

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307th Session

Geneva, March 2010

PFA

FOR INFORMATION

THIRD ITEM ON THE AGENDA

Audit questions

Follow-up to the report of the Chief Internal Auditor for the year ended 31 December 2008

1. At the 304th Session (March 2009) 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 2008. This paper addresses follow-up action taken by the Office on the Chief Internal Auditor's 2008 recommendations.

2. The Chief Internal Auditor's overall assessment for 2008 was that there was no material weakness in the ILO's overall system of internal control. Her 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, 25 February 2010.

Submitted for information.

Appendix

Status report of the implementation of recommendations made by the Chief Internal Auditor in her report to the Governing Body in March 2009

Audit recommendations	Report of the Office on actions taken
Training	
Recommendation 1 (paragraphs 7–9):	
The Office of Internal Audit and Oversight (IAO)'s reviews identified training as a key issue. Through the workings of the Staff Development Fund, the ILO does have training programmes in place to meet a range of staff development needs. However, there is an opportunity to reinforce this by establishing a more structured training programme to assist managers and support staff carry out their operational responsibilities with respect to maintaining and effectively applying the ILO's system of internal control and safeguarding of ILO assets. Initial and ongoing training in this area will assist officials to identify and correct, at an early stage, any gaps in the system of internal control for which they are responsible. The Office has begun to develop training that would address the above issues. Such a training programme should include providing officials with an understanding and knowledge of how to apply effectively the ILO's financial rules, regulations and established procedures, including aspects of work planning and monitoring, as well as ethics. This type of training should be embedded as part of the ILO's staff development programme and be mandatory for all officials in, or about to take up, posts that require management of the ILO's activities and resources. The IAO encourages the Office to fast track the development of this training initiative, as it would help strengthen the ILO's current management training programme. While headquarters should be responsible for identifying Office-wide training needs and developing training programmes to meet such needs, the regional offices should be responsible for ensuring that appropriate training is delivered to staff throughout their region on an ongoing and systematic basis.	The Human Resources Development Department (HRD) is responsible for supporting and funding the design and coordination of Office-wide training needs. Responsibility for the identification of officials requiring training in specific business areas and for the actual delivery of the training lies with the business units themselves. Within the current biennium, HRD, through the Staff Development Fund has supported and contributed to a number of initiatives related to good governance and operational procedures owned by other units: needs definition for training in general financial and administrative processes; development of materials in areas such as ethics, procurement, risk management, International Public Sector Accounting Standards (IPSAS), fraud prevention and project cycle management. HRD has also organized and provided training in its direct areas of responsibility: language and basic IT training, performance management, recruitment processes, contract administration and leadership development initiatives. It has also continued to provide training on the Integrated Resource Information System (IRIS). These initiatives were not necessarily addressed specifically to managers, but to staff at large. Training courses are currently voluntary. The Human Resources Strategy for 2010–15 foresees a more consistent approach to training of officials with management responsibilities, including the possibility of some mandatory training in key areas concerning the management of ILO programmes and resources. The voluntary or compulsory nature of such training will be determined in collaboration with the business units concerned, and should also be seen in the larger context of the development of the ILO accountability framework. The question of access of managers in technical cooperation (TC) projects or programmes to such enhanced training will be dependent on changes in the current policy on the use of Staff Development Funds and contributions from extra-budgetary resources for this service. In the interim, a liberal approach to participation of TC staff on an "extra seat at the table" basis has been applied.

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	The Office has developed a procurement training programme for managers and staff involved in procurement activities. This training programme was successfully piloted in October 2009. Plans are now being finalized to train headquarters staff in 2010 followed by regional offices in 2010–11; and to make this training a regular staff development offering.
	The Office has expanded training on results-based management as part of a larger initiative related to Decent Work Country Programmes and United Nations (UN) reform, with sessions held in each of the regions.
	Training programmes are delivered using a combination of "face-to-face" and "distance learning" and are being developed in concert with business process reviews and the conversion of circulars into the Internal Governance Document System (IGDS).
Accountability framework	
Recommendation 2 (paragraph 10):	
Taking into account the results of the IAO's audits and investigations, the IAO found that lines of authority and accountability were at times blurred or created inconsistencies. For example, the Procurement Bureau report highlighted an anomaly that could create a conflict of interest. The function of Treasurer and Financial Comptroller (TR/CF), Financial Director and responsibilities for procurement rested with the same person. While the report did not find any actual conflicts of interest arising, there may be a perception that one exists. The Office has informed the IAO that safeguards have been implemented to ensure that should a conflict of interest arise it would be properly managed.	This recommendation reiterates a recommendation contained in the 2005 IAO report which was the subject of detailed consideration at the time before the decision was taken to locate the procurement function with TR/CF. There is a potential for conflict of interest wherever the Procurement Bureau is located. In the rare cases where the Financial Services Department is the client, an alternative procedure involving oversight by the Management and Administration Sector is applied to avoid the perception of any conflict of interest. Nevertheless, these arrangements will continue to be monitored to provide the necessary assurances.
Recommendation 3 (paragraph 11):	
The Office has embarked on initiatives that enhance transparency and accountability within the ILO, such as developing and implementing a results-based management framework; the field structure review; adopting IPSAS; establishment of a senior management team subgroup on financial management and performance information; disclosing internal audit reports to Governing Body members on request; and a new performance appraisal system. While acknowledging that developing an accountability framework is a complex process,	The ILO's Task Team on Internal Reform has taken up review and formalization of the accountability framework. Data on the frameworks of other UN agencies has been collected and reviewed. A Director-General's Announcement has been issued. The Announcement, a high-level document, outlines the principles on which accountability is based in the ILO. There is a section on responsibility, authority and accountability, which most importantly highlights that officials are accountable not only for their actions but also for decisions and omissions. The final section covers delegation of responsibility and authority, making this one of the parent documents to a financial

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the IAO is of the view that there is an opportunity for the Office to take advantage of these initiatives to bring them together under a more formalized accountability framework. This would further underpin internal governance mechanisms already in place, as well as strengthen internal control Office-wide. The IAO therefore suggests that the Office reviews and formalizes its accountability framework.	governance directive which will be published early in 2010. Any draft directive addressing the implementation of the accountability framework will be shared with the Independent Oversight Advisory Committee (IOAC) for comment. Numerous IGDS documents related to the individual elements of the accountability framework have already been published, including on performance management, ethics in the Office, conflicts of interest, financial disclosure requirements, and whistle-blower protection.
Work planning	
Recommendation 4 (paragraphs 12–13):	
Work planning is a basic tool to assist managers operationalize an accountability framework by effectively defining desired results, use of resources and delegation of authority and accountability. Also, the ILO is further refining and implementing a results-based management approach to its operations and, in this context, effective work planning at the operational level is an important factor. It can help link high-level plans and outcomes to day-to-day operations and use of resources, as well as provide a means to benchmark progress for reporting and ongoing planning purposes. Although the ILO's Intranet provides some guidance on work planning within a results-based management framework, the Office acknowledges that the provision of practical guidance and training on this matter has not progressed sufficiently due to resource constraints and other competing priorities. The results of the IAO's audits indicate that work planning is still not applied on a consistent basis. Therefore, to assist in the implementation of results-based management and help define delegations of authority and accountability, the IAO recommends that the Office take forward the development of detailed practical guidance for use by ILO officials on work planning, including how this should be linked to the results-based management process, and the Strategic Policy Framework.	The Strategic Policy Framework 2010–15 and the Programme and Budget for 2010–11 establish a new results framework for the ILO that clarifies the outcomes sought and the criteria for measuring progress. The Office is committed to support implementation of the Programme and Budget for 2010–11 through the introduction of outcome-based workplans. These high level workplans will provide the basis for resource planning by each office and unit. Guidance has been issued. IRIS support was enhanced and consultations across sectors and regions were organized to support joint identification of targets and priorities, providing the basis for joint programming arrangements. Outcome-based workplans support collaboration across the Office, including both headquarters and the regions, as required by the ILO Declaration on Social Justice for a Fair Globalization. By setting out the contributions to outcomes per unit and office, including at the level of outputs, these workplans also guide the development of unit-level workplans and support the introduction of the new performance management system. The Office recognizes that, following the establishment of the new results framework and the development of outcome-based workplans, resources now need to be directed towards providing further guidance and training on the development of unit workplans.

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Risk management	
Recommendation 5 (paragraph 14):	
The IAO welcomes the response and action taken by the Office in developing and introducing a risk management system to the ILO. Risk management activities are mostly centred within the Management and Administration Sector with only a few officials from other sectors having received training on this subject. The IAO encourages the Office to continue development of risk management Office-wide, linking it to the results-based management framework and Strategic Policy Framework, as it is a practical tool that can assist managers deliver the goals of the ILO.	The ILO's Risk Management Policy was published in the IGDS in August 2009. A request for proposals for a risk management training provider was issued. An international consulting firm has been selected and a contract signed for a pilot programme for the facilitation of risk management training workshops for six departments at headquarters. The pilot training began in February 2010. The terms of reference for this contract call for the pilot programme to be completed in 2010.This pilot training will be followed by another request for proposals in 2010 to complete the training of headquarters staff. Within the context of the accountability framework, the roles and responsibilities of managers to manage risks are clearly identified. In addition, the strategies for each outcome within the programme and budget have a specific requirement to identify risks. As such, there is now a direct link between risk management and the results-based management framework.
Bank signatories	
Recommendation 6 (paragraphs 17–18):	
During the course of its visits to external offices, the IAO found that bank signatories were not always kept up to date concerning external office, regional office or headquarters signatories. Even if regional office and headquarters signatories were current, local banks did not necessarily recognize them because the local administrative procedures had not been correctly followed, or there were legal restrictions on recognizing non-domiciled signatories. The IAO welcomes the action the Office has taken to address this matter by issuing an Office Directive on operation of bank accounts, and suggests that the regional verification teams monitor compliance with this Directive, reporting any deviations to regional senior management, and the Treasury and Accounts Branch in Geneva for appropriate follow-up action. In addition, regional offices should be responsible to ensure that external offices identify and report local requirements for ensuring validity of headquarters and regional office signatories.	Following the issuance of the Office Directive, all external offices were requested to obtain confirmation from their respective banks on the relevant signatory panels. Responses have been received. Regular monitoring will be undertaken by both regional verification teams and headquarters treasury specialists. A thorough review of banking operations Office-wide is underway. It is expected that as a result of this review the number of banks with which the ILO operates will be significantly reduced, and e-banking will become more widely used. This should contribute to inter alia, a better control and monitoring of bank signatories. The initial phase of this project, recommending a new operational model and providing a business case for its implementation was completed in February 2010 and is now being reviewed.

Audit recommendations	Report of the Office on actions taken
Financial Information System for External Offices (FISEXT)	
Recommendation 7 (paragraphs 19–21):	
To ensure effective programme and project management and promote strong internal control, it is essential that staff have available to them appropriate tools to assist them in their management and monitoring tasks. One of these tools is the FISEXT. In four of the audit reports, the IAO found there were opportunities to make better use of FISEXT in order to improve financial and budgetary control over regular budget and TC operations. Not only can its effective application improve internal control, but it can also bring efficiencies to work procedures. To promote effective use of FISEXT, pending the roll-out of IRIS to field offices, the Office should, via regional offices, consult with the directors of external offices to determine if there is scope to make better use of FISEXT at the local level; namely by ensuring staff have the appropriate level of access to modules relevant to their tasks, and identifying TC projects that could benefit from having FISEXT made available at the project level.	Based on consultations with the regional offices, FISEXT has been implemented during 2008–09 in the following project offices: Kabul (Afghanistan), Dili (Timor-Leste), Bamako (Mali), Antsirabe (Madagascar) and Nairobi (Kenya). Other implementations are currently planned for 2010, including project offices in: Accra (Ghana), Monrovia (Liberia), Kampala (Uganda) and Maputo (Mozambique). The implementation of FISEXT in external offices is accompanied by training and advice on appropriate work flows and procedures to ensure effective internal controls and segregation of duties. Verification visits by specialist staff provide an opportunity to review the application of these procedures. A review is currently underway to determine how FISEXT will be replaced in the smaller ILO and project offices, as part of the field roll-out of IRIS, and to determine which other offices, not using FISEXT, would benefit from access to this system.
Effects of exchange rate movement on budget management	
Recommendation 8 (paragraphs 22–24):	
One of the project reviews identified a disparity between the requirements of ILO financial regulations and standard practice to maintain project budgets and account for expenditure in US dollars, and the project agreement that provided for funding in the local currency of the country in which project activities took place. Due to a weakening of the US dollar against the local currency, expenditure as reported in US dollars increased disproportionately against the project's budget, as the budget was not revalued to reflect exchange rate movements. This gave the appearance that the project did not have sufficient funds available in US dollars to complete agreed project activities, although in reality there were sufficient project funds available in the local currency to do so. At the time of audit, there was a	In accordance with the Financial Regulations, the ILO does not enter into any extra-budgetary funded TC project where it is required to bear financial risks or losses from its implementation. Any exchange rate risk is borne by the donor. The Office ensures that this requirement continues to be clearly stated in the contracting documents. With respect to the project in question, a system of monthly revaluations has been implemented which can be used locally to manage projects where, due to the funding arrangements, exchange fluctuations could occur. This allows projects to fully use locally raised contributions in currencies other than the US dollar, where payments are made predominantly in that currency.

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serious threat to continued project operations had this budget issue remained unresolved. Although the Financial Services Department, in consultation with the project, resolved the issue, the IAO had concerns that similar situations may arise in future concerning projects funded in the local currency of the country in which project activities were to take place. Therefore, the IAO recommended that the Financial Services Department take appropriate action to identify projects of this nature at an early stage, and ensure budgets reflect exchange rate movements in a timely manner.	
Procurement	
Recommendation 9 (paragraphs 25–26):	
The IAO periodically conducts reviews of the ILO's procurement function as it is inherently a high-risk activity, and accounts for the majority of non-payroll expenditure incurred by the ILO. As part of the review, the IAO also followed up on the implementation of recommendations contained within the IAO's previous reports on procurement matters (two reports were issued in 2005 and one in 2003). Overall, the IAO found the quality of work performed by the purchasing and contracting unit staff as high. Documentation reviewed in support of procurement actions was found to be professionally prepared, issues were followed up on promptly, and there was value added to all the transactions reviewed. With the aim of improving the ILO's procurement function, the IAO's report brought to management's attention the following significant matters and contained appropriate recommendations to help address these issues: (a) the mandate of the Procurement Bureau and where best to utilize scarce resources therein; (b) the role that the Department of Partnerships and Development Cooperation (PARDEV) may have to oversee the process of evaluating the capabilities of partner organizations subcontracted to deliver elements of TC projects; (c) the Procurement Bureau serving as the repository for all agreements, and monitoring contract end dates; (d) establishment of local contracts committees;	(a) The Procurement Bureau's mandate and procedures have been reviewed during 2009. The revised mandate and operating procedures are being incorporated into new procurement-related IGDS documents replacing circulars and providing more practical guidance, and in a training programme developed for ILO managers and staff involved in procurement activities. (b) The practical issues related to implementing this recommendation are still being evaluated by the Procurement Bureau, TR/CF, PARDEV and key users of such contracts (for example, the International Programme on the Elimination of Child Labour (IPEC)). A final decision on implementing any changes to the current procedures for evaluating subcontractors will be made in the first quarter of 2010. (c) Procurement within the ILO is largely decentralized to headquarters departments and external offices. The centralized Procurement Bureau does not have the capacity to serve as a central repository for all contracts nor can it provide central monitoring services for all contracts. It is the responsibility of the requesting units to maintain the signed contracts and manage the contracts with suppliers. The only exceptions are certain major purchases where the Procurement Bureau and the requesting unit agree that for logistical or other reasons these functions can be better provided by the Bureau. (d) Procedures for the establishment and operations of local contracts committees have been drafted. Consultations are taking place with regional offices to identify how to prepare local staff to participate in and manage such committees. Training of regional office staff in procurement procedures is planned for 2010. (e) IRIS is currently effectively used as the system of record for all procurement at headquarters, including travel, courier, telecommunications and library. The system used by the library to manage their

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(e) reviewing the practicalities and benefits of consolidating the system of purchasing travel agent, courier and telecommunications services, and library acquisitions within the IRIS system; and (f) implementing the Oracle Fixed Asset module in advance of the introduction of the IPSAS in 2010.	acquisitions is specialized software that would not be effectively replaced by IRIS. (f) Oracle Fixed Assets is scheduled for implementation prior to the introduction of full IPSAS reporting in 2012. A project team of subject matter experts has been developing detailed business requirements with Oracle consultants. A conference room pilot has been completed and detailed design specifications for enhancements to standard Oracle software, required to meet ILO business needs, have been developed and a substantial portion of the software coding has been completed. Consultations have taken place with other UN family organizations and others to benefit from their lessons learned.
Field audits – Subregional Office for Eastern Europe and Central Asia (SRO–Moscow)	
Recommendation 10 (paragraphs 27–28):	
The reports issued by the IAO on the audits of external offices and projects contained recommendations to assist local management improve internal control over operations, financial, administrative and human resource matters. The most significant matters were common across the offices and projects reviewed and have been included in the section on Office-wide issues. The other important findings related to the audit of the SRO–Moscow. The audit of the office identified five key factors that, combined with other findings relating to financial and administrative matters, led the IAO to express concern over the office's system of internal control and control environment. The Subregional Office needed to improve capacity in the programme function, and in the provision of support to the Director. Furthermore, the office needed to strengthen the level of scrutiny over financial and procurement actions undertaken by projects. The IAO also identified a gap in training which, had it been provided, could have assisted both financial and administrative, and technical support staff effectively carry out their oversight role concerning project activities. The office also required an improved level of oversight and support from the Regional Office. The IAO made appropriate recommendations in its report to assist management address these matters.	A restructuring of the programming unit has enabled the assignment of additional resources to strengthen capacity. Funds have also been identified to recruit a Deputy Director as of 1 July 2010. This position will provide support to the Director, including overseeing financial and administrative matters. Limited progress was achieved in 2009 with respect to closer scrutiny of project activities due to the fact that some key staff positions had to be created. Once all these positions are filled the situation will improve. Training was conducted in SRO–Moscow in April 2009 for office and project staff on key financial procedures followed by a training organized in May 2009 for all administrative staff of the region on updated administrative procedures. Headquarters specialists are providing direct support to SRO–Moscow in facilitating implementation of the internal audit recommendations with a first mission undertaken to Moscow in October 2009 and continuous contact through mail and phone. During the preparation of the next set of budget proposals, a review will be undertaken of the possible allocation of resources to improve the level of oversight.

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ILO–ITU Staff Health Insurance Fund (SHIF)	
Recommendation 11 (paragraph 29):	
The most significant matters brought to management's attention were as follows, with appropriate recommendations contained in the report to help address these matters: – in response to a recommendation made by the IAO during the 298th Session of the Governing Body (March 2007), in March 2008 the SHIF stated it was continuing in its efforts to put in place a system to ensure continuity in the maintenance of the Health Insurance Information System. The IAO found that this issue had not yet been fully resolved; – the IAO identified a need for the Management Committee to improve communication with insured persons by ensuring that the annual report on the operations of the SHIF be prepared and issued annually in a timely manner; and that a formal written record be prepared of all its meetings and posted on the SHIF web site; and – the method and approach used to collate and determine SHIF's administrative expenses require to be reviewed and updated to ensure that all appropriate charges are properly captured for the purposes of cost sharing with the ITU.	Following a reorganization of the SHIF Secretariat, a position has been reconfigured to provide for sufficient systems capability to be able to act as back-up for the Information Assistant. The position will be filled by the end of the second quarter of 2010. The publication of a report on the operations of the Fund covering a two-year period (2006–07) was exceptional, as stated in the report itself. A report covering the year 2008 was approved by the Management Committee, reviewed by the External Auditors, translated and published on 3 December 2009. Future reports will also be annual. Meeting minutes are kept for reference and audit purposes. The SHIF Management Committee has not felt compelled to publish them as more appropriate, efficient and effective means of communication are used and there is no regulatory obligation to do so. The ILO has undertaken an itemized evaluation of SHIF administrative running costs, as well as a review of the method of sharing costs between the ILO and the ITU. The ITU has been made aware of the need to review cost sharing from 2010. The review of this aspect of the financing of the SHIF will be part of broader discussions on the relative premium versus benefit results of the two organizations.
Follow-up	
Recommendation 12 (paragraphs 32–35):	
The prompt and effective follow-up of internal audit recommendations is primarily the responsibility of departmental and office managers, and the IAO works with them to assist them in this responsibility. The Director-General has delegated oversight responsibility to the Office of the TR/CF to ensure managers have taken action to address the IAO's audit findings. The Chief Internal Auditor and the Office of the TR/CF are consulting with each other to establish a more systematic mechanism to ensure adequate and timely follow-up by the responsible managers.	In December 2008, a new procedure to ensure timely and effective follow-up of internal audit recommendations was implemented. An Office Directive and an Office Procedure have been issued to support this process. The Office actively follows up on the implementation of recommendations and reporting of actions taken to the Chief Internal Auditor, in the form of an "implementation report". Internal audit reports and the corresponding implementation reports are also reviewed by the IOAC. This procedure and the status of Office follow-up on implementation of recommendations were reviewed by the IOAC during its meetings.