INTERNATIONAL LABOUR OFFICE

Governing Body

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Programme, Financial and Administrative Section
Audit and Oversight Segment

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SEVENTH ITEM ON THE AGENDA

Report of the Chief Internal Auditor for the year ended 31 December 2019

Purpose of the document

This document contains the report of the Chief Internal Auditor on the activities of the Office of Internal Audit and Oversight, including significant findings resulting from internal audit and investigation assignments conducted during 2019, for consideration by the Governing Body.

Relevant strategic objective: None.

Main relevant outcome: Enabling outcome B: Effective and efficient governance of the Organization.

Policy implications: None.

Legal implications: None.

Financial implications: None.

Follow-up action required: The Office to provide follow-up.

Author unit: Office of Internal Audit and Oversight (IAO).

Related documents: GB.335/PFA/7.

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 2019.

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 the Office of Internal Audit and Oversight are thoroughly evaluated and there is constant dialogue between managers and the Chief Internal Auditor to give effect to them.

Investigation work undertaken by the Chief Internal Auditor is an essential element of the Office's accountability mechanism by providing those responsible for making recommendations relating to allegations of fraud or other impropriety with invaluable independent findings.

Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2019

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Introduction

1. The Office of Internal Audit and Oversight (IAO) of the International Labour Office (the Office) fulfils an internal independent oversight function, as established under article 30(d) of the Financial Regulations and Chapter XIV of the Financial Rules. Its mandate is further underpinned by its Audit and Investigation Charters, which were approved by the Governing Body.

2. The IAO's mission is to enhance and protect the ILO's value by providing risk-based and objective assurance, advice and insight. The IAO aims to assist the Office in accomplishing its strategic objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

3. In addition, its mandate includes responsibility for conducting fact-finding investigations into allegations of financial or administrative misconduct and other irregular activities. Since 11 November 2019, the IAO's mandate has been clarified to include the authority to conduct investigations into allegations of:

(a) sexual exploitation and abuse, and

(b) retaliation against whistle-blowers referred by the Ethics Officer.

4. The IAO conducts its activities in conformity with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (the IIA standards), the Uniform Principles and Guidelines for Investigations endorsed by the Conference of International Investigators of the United Nations Organizations and Multilateral Financial Institutions, and the IAO's standard operating procedure for investigations.

5. The IAO does not develop or install procedures or engage in any activity that it would normally review or appraise or which could be construed as compromising either its independence or objectivity. Under Chapter XIV of the Financial Rules and its Audit and Investigation Charters, the IAO has full and free access to all records, personnel, operations, functions and other material relevant to the subject matter under review.

6. The Chief Internal Auditor confirms his independence and that the IAO's activities have been carried out free from interference by management or other stakeholders.

Summary of activities

7. This section provides a brief overview of the main activities undertaken by the IAO in 2019.

Assurance audits

8. During 2019, the IAO issued 12 assurance audit reports relating to the International Labour Office and one relating to the International Training Centre of the ILO in Turin (the Centre). Six of the assurance audit reports for the Office covered headquarters functions, and six related to audits covering ILO field office locations: two in Asia and the Pacific and one each in Africa, the Arab States, Europe and Central Asia, and Latin America and the Caribbean (see Appendix I). During 2019, the IAO completed the fieldwork for a further

four audit assignments, [1] which are in various stages of reporting. The Chief Internal Auditor will present a summary of the findings arising from these assignments to the Governing Body in March 2021 together with audits undertaken during 2020.

Investigations

9. In 2019, the IAO received 50 new referrals for review, compared to 69 in 2018, 41 in 2017 and 32 in 2016. The trend shows a slight year-on-year increase with the exception of 2018, which was higher than usual due to a significant number of investigation referrals from the Staff Health Insurance Fund (SHIF) following on from the internal audit of the Fund.

10. A breakdown of the status of cases as at 31 December 2019 is shown in paragraph 58 below and a list of issued reports is provided in Appendix III.

Other activities

11. The IAO provides internal audit and investigation services for the International Training Centre of the ILO in Turin. In 2019, the IAO issued one assurance audit report for the Centre, consisting of an audit of the Centre's payroll. The Chief Internal Auditor will present a report summarizing its 2019 activities to the 83rd Session of the Board of the Centre in October 2020. The Board will report on its deliberations to the 338th Session (October–November 2020) of the Governing Body.

12. During 2019, the IAO attended the meetings of the Steering Committee for the headquarters Building Renovation Project (BRP), the Risk Management Committee and the Information Technology (IT) Governance Committee as an observer. As part of its outreach, the IAO continued to present anti-fraud awareness training sessions. Upon request from the Better Work programme, the IAO undertook a pre-implementation review of the new system that it will roll out to improve the management of, and security over, data collected by factory inspectors. In addition, the IAO provided ad hoc advice to management on request.

13. Officials from the IAO's assurance audit and investigation units participated actively in their respective oversight peer groups within the United Nations (UN) system: the UN Representatives of Internal Audit Services and the UN Representatives of Investigation Services. The ILO was one of the co-hosts of the Conference of International Investigators in Geneva in November 2019. The IAO also participates in the annual meeting of the Heads of Internal Audit in International Organizations in Europe (HOIA). In conjunction with the International Committee of the Red Cross, the IAO will jointly host the 2020 HOIA meeting in Geneva, and devoted time this year to preparation activities.

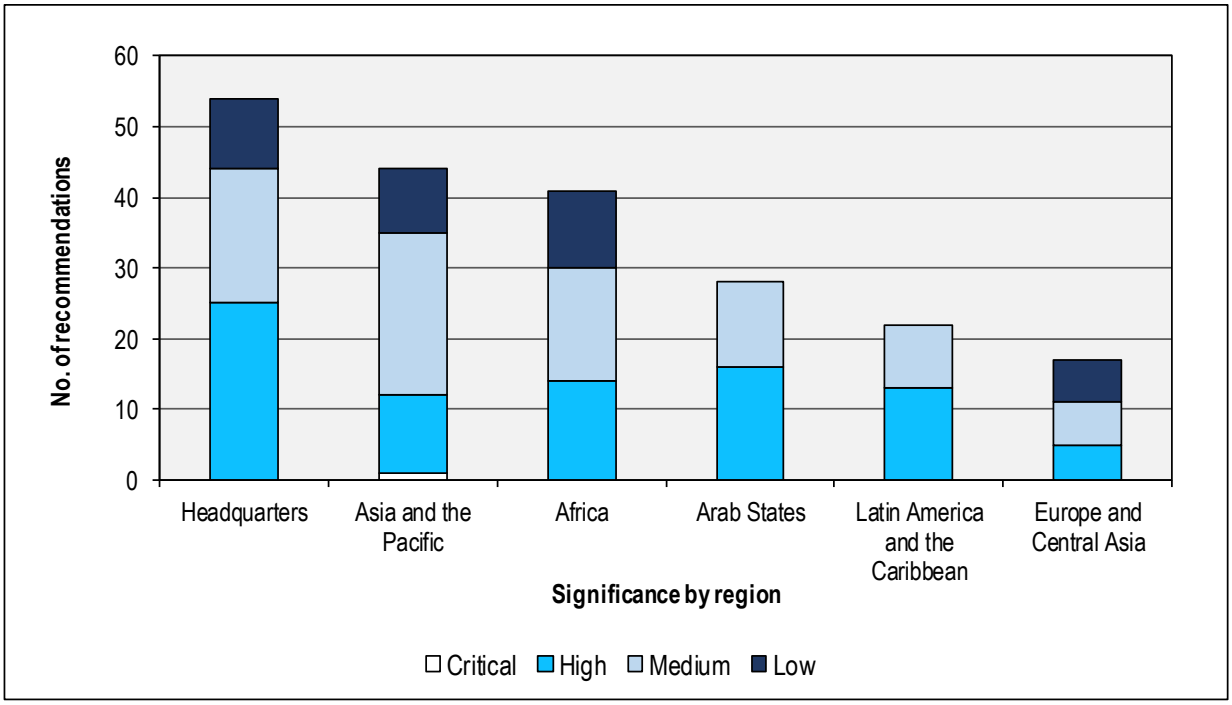
Summary of audit results

14. In the 12 audit reports issued in 2019, the IAO proposed 206 audit recommendations and assessed them to be of varying significance for the ILO, with the levels of low, medium, high and critical importance. Overall, the IAO did not identify any material weakness in the ILO's system of internal control in those areas that were subject to an internal audit in 2019, although a number of areas required improvement.

[1] External collaboration contracts, establish and maintain projects, Voluntary Thrift Benefit Fund, DWT/CO-Dakar.

15. The IAO's analysis of audit findings in 2019 by region and at headquarters and by significance is shown in figure 1.

Figure 1. Audit findings by region and at headquarters and by significance in 2019



16. The significant findings arising from the IAO's 2019 activities are detailed in the report below.

17. Following on its 2019 activities, the IAO has made a number of strategic recommendations in this report for consideration by the Office. These concern:

- reviewing and actualizing the information security management system;
- strengthening information technology security through encryption of devices and ensuring timely completion of the online IT security awareness training course for all ILO officials;
- providing further access to the Integrated Resource Information System (IRIS) to development cooperation (DC) projects;
- ensuring that internal controls continue to remain robust in offices with large increases in DC project allocations;
- reinforcing the requirements and accounting for the management of grant agreements;
- issuing the bank guarantee of contractors as an abstract rather than joint guarantee in any future contracts for renovation works; and
- improving timely implementation and reporting on internal audit recommendations.

18. The IAO is pleased to note that in the majority of the areas covered by the recommendations, the Office reported that it had put in place actions to address the control issues identified by the IAO immediately following the audit and in subsequent implementation reports. These initiatives are considered when performing the IAO's risk assessment as part of its regular

and ongoing audit planning process. As in previous years, the IAO continues to conduct focused follow-up audits to verify implementation of internal audit recommendations.

Risk management

19. The IAO continues to review the composition of the risk registers drafted by the entities under audit. During the year, a new updating exercise was completed and this further improved the consistency and relevance of the risk registers. The IAO is of the view that strengthening and further integrating risk management into each manager's strategy and planning is a good practice, and serves as an essential component of strong internal control.

20. In formulating the overall ILO risk register as presented in the Programme and Budget for 2020–21, the IAO noted that the Senior Risk Management Officer consolidated the risk registers prepared by the individual departments and offices into the aggregated version, which the Governing Body approved at its 335th Session (March 2019). The strategic risk register is designed to be a working document, monitored at a corporate level by the Risk Management Committee, and informing, and informed by, assessments of the risks that the Organization faces in its operations. It further demonstrates that the Office continues to embed risk management in making major decisions, and in formulating strategies and plans. The IAO encourages further monitoring and updating of risks on a regular basis as a recurring managerial task.

21. Through its involvement with the Risk Management Committee and audits conducted, the IAO noted that the Senior Risk Management Officer provides advice to technical units when undertaking risk assessments and establishing risk registers when implementing a DC project. This is a good exercise to understand fully the risks facing a project's implementation. Nevertheless, in the IAO's view, there is an opportunity to document explicitly, on a consistent basis, risk assessments undertaken in the early stages of project formulation, to inform decisions on project design and before implementation begins.

Headquarters audits

22. During 2019, the IAO issued six reports covering headquarters-based activities, including the pre-implementation review of a Better Work Information Technology (IT) system mentioned in paragraph 12 above. Of the five other reports, three addressed IT issues, one was of a centralized DC project, and one covered the headquarters BRP. The main findings of the audits are listed below.

Audit of operations concerning IT projects

23. The IAO reviewed the Project Governance and Management Services Unit (PGMS) in the Information and Technology Management Department (INFOTEC). Headquarters units and field offices are required to submit IT project proposals to the PGMS for review.

24. The audit found that some departments at headquarters retained a varying degree of managerial and operational control over business applications, which raises the liability of increased security risks. The Office agreed with a recommendation to transfer the responsibilities and resources for the management and operations of all critical in-house ILO information systems to INFOTEC. This would include relocating the information system infrastructure at headquarters to the ILO computer rooms subject to INFOTEC's maintenance procedures. The IAO encourages the Office to implement this recommendation

as soon as is practical to secure remaining applications managed outside of INFOTEC and avoid potential security and maintenance problems in the future.

25. The audit further recommended that PGMS document the list of suppliers and applications that the submitting units have assessed during the review process. Furthermore, INFOTEC should keep the list of all available applications visible, so all ILO officials may know which software programmes may already be available.

Internal audit of the information security management system

26. The Information and Security Assurance Services Unit (ISAS) in INFOTEC maintains an information security management system. In 2019, an independent assessor from the British Standards Institute conducted a surveillance audit and as a result certified ISAS as meeting the requirements of ISO 27001:2013 Information Security Management Systems. However, the review identified that no internal audit had been conducted to assess the ongoing compliance of the system with the requirements of ISO 27001:2013, which the standard requires. To address the non-conformity, the IAO commissioned an independent consulting firm, under its supervision, to review compliance against the ISO standard.

27. The results of the audit indicated that the system established and implemented broadly met the ISO 27001:2013 requirements. The audit team concluded that 47 of the 50 security controls in the scope of the audit were effective, meaning they meet the standard's minimum requirements for documentation and implementation. High significance recommendations meant to improve the control environment addressed performing overall reviews of the suitability, adequacy and effectiveness of the information security management system on a regular basis; updating IT security policies to tackle evolving threats, such as the emergence of mobile malware, ransomware and attacks on connected devices; and formalizing criteria for performing information security risk assessments and updating risk registers. Furthermore, the IAO will need to establish an audit strategy and an approach for conducting periodic internal audits of the system.

Report on the internal audit of Data Centre Operations

28. The ILO operates an on-premises data centre at its headquarters in Geneva, and maintains contractual relations with the United Nations International Computer Centre (UNICC). INFOTEC provides a shared file system and web services through ILO-owned infrastructure, maintained on its premises. The UNICC provides SharePoint application services as well as email and disaster recovery services for the ILO's infrastructure from its Geneva facility. In addition, the UNICC provides an email notification service to facilitate mass messaging to ILO headquarters-based staff in the event of a disaster or unforeseen event. The Internal Services and Administration Department (INTSERV) is responsible for managing this particular UNICC service.

29. Audit results indicated that INFOTEC established effective processes to operate its data centre services and to recover these services in the event of an equipment or power failure. In addition, management has made progress in addressing the findings presented in a 2017 audit that INFOTEC commissioned from an independent information technology and services firm on information systems security. The audit also found opportunities to strengthen internal controls. The IAO also noted that, over a number of years, the ILO had not been making proper use of the UNICC's email notification service, incurring fees of US$33,000 per biennium. INTSERV, with the assistance of INFOTEC and HRD, have addressed the issue and the automated service will be operational in February 2020.

Report on the internal audit of the Sustaining Competitive and Responsible Enterprises (SCORE) programme, Phase III

30. The Sustaining Competitive and Responsible Enterprises (SCORE) programme assists governments, industry associations and trade unions through its main intervention, a practical training and in-factory consulting programme that improves productivity and working conditions in small and medium-sized enterprises (SMEs). Two previous stages of the project ran from 2009 to 2017, while the current phase runs to 2021 with financing from the Swiss State Secretariat for Economic Affairs (SECO) and the Norwegian Agency for Development Cooperation (NORAD).

31. The review by the IAO found internal controls working well to manage relevant risks. The project initiated strong knowledge-sharing initiatives, which included applications and websites aimed at staff, partner organizations and beneficiaries. A custom application called SCORE Data was developed to track all the programme's monitoring and evaluation data, and this is a good practice. However, the audit revealed that, in some cases, the information was not up to date or did not match the findings of the IAO's review. This raises the risk of reporting incorrect statistics. The IAO notes that the project took immediate action to begin to rectify this deficiency during the audit.

32. Site visits revealed good levels of sustainability. Some project beneficiaries had enacted the SCORE programme in its first phase some eight years previously, and demonstrated that they were still following practices and continued implementing initiatives of the project. Examples include furtherance of staff Enterprise Improvement and Occupational Safety and Health Teams created under the programme, and posting of statistics on office bulletin boards. Implementing organizations visited expressed their satisfaction with SCORE, and several reported incorporating much of the methodology into their own training programmes following the end of their collaboration with the programme. Even as the project finishes teaming with partners, several plan to continue offering workshops to additional enterprises, representing continued support of the approach.

Audit of the ILO headquarters Building Renovation Project

33. As in previous years during the course of the works, [2] the IAO outsourced an audit of the headquarters BRP to an external consultancy firm to obtain optimum skills and independent expertise. The overall objective was to review the internal control processes of the BRP, including assessing whether adequate controls were in place to mitigate the key risks and whether the project was being carried out in an efficient and cost-effective manner. As this was the last year of the Phase I works, the review also covered the proposed handover procedures for completeness and applicability.

34. The audit found that the building renovation was carried out well in terms of time, cost and risk management. The lean construction management approach continued to be efficient and worked well in practice. The subcontractor selection and contract extension processes were also proven to be transparent, cost-effective and in compliance with ILO regulations. Specifically regarding the handover procedures, the audit determined that they were set up adequately.

[2] GB.332/PFA/7; GB.329/PFA/7(Rev.) and GB.320/PFA/10(Rev.).

35. Seven low significance and two medium significance recommendations were made, the latter of which would be applicable to any such future contracts. They comprise making sure that final project documentation is complete, and that accurate handover procedures are developed. Inaccurate and incomplete as-built plans as well as incorrect archiving, especially of essential technical installations and facilities, could create difficulties and additional costs in case of repair and/or transformation works in the future.

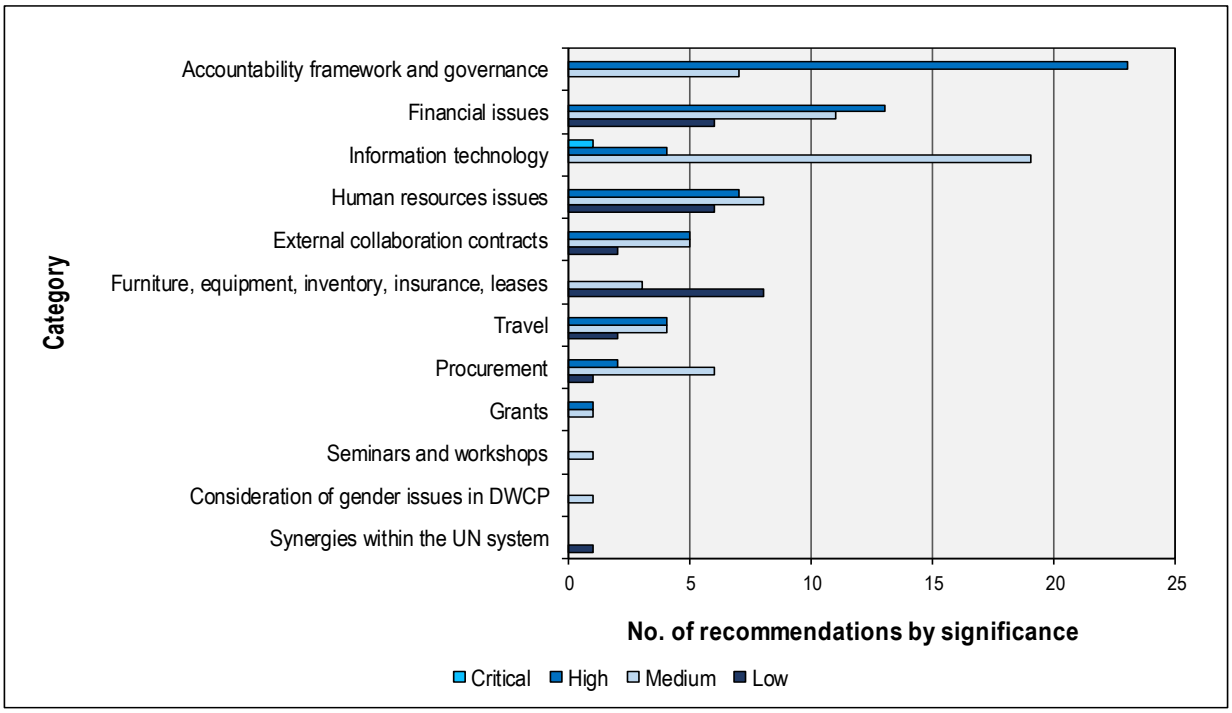
36. The other forward-looking recommendation concerned the type of bank guarantee given by the contractor. The bank guarantee is there to protect the ILO in case of hidden deficiencies in the work of the contractor that may come to light within a specified time period after the completion of the works. The external consultancy firm estimates that the current type of bank guarantee in place is less favourable to the ILO in case of a dispute and recommended that for future works the ILO use a different type of bank guarantee, called an abstract guarantee, which would better protect the ILO. The IAO therefore recommends that, for future projects, the Office should establish, with the selected contractor, the type of bank guarantee that would provide the best protection for the ILO.

Field audits

37. During 2019, the IAO issued six assurance audit reports for audit work conducted at ILO field and project offices in Ethiopia, Haiti, Jordan, Turkey and Viet Nam, as well as a regional audit covering IT operations in Asia and the Pacific. The IAO identified inconsistencies between field offices in the effectiveness of systems of internal control in the management of risks. Good control environment practices in those locations audited were brought to the attention of management for replication in other environments.

38. The IAO offered recommendations to address the observations arising from its field audits in the respective reports to further improve their systems of internal controls. The main findings are detailed below, and figure 2 shows the number of recommendations per category and significance. The main findings related to improving internal governance, information technology issues, and finance.

Figure 2. Field audit recommendations by category and significance in 2019



Summary of main observations of field audits

Financial issues

Cash advances to staff

39. In three reports, the issue of cash advances to staff was raised, with varying concerns. For an office in one country, recent advances in payment technology and mobile banking involving the use of smart phones would eliminate the need to disburse cash and facilitate digital payments that are auditable, secure and reduce the risk of carrying cash. In another office, large amounts of cash advances, one exceeding US$62,000, were paid to staff for project activities. In this same office and one other, the IAO found that the reconciliations for cash advances required attention. The IAO has, in the past, investigated alleged misuse of cash advances and is currently in the preliminary stage of reviewing a recent allegation.

40. While seeking technology-based alternatives to cash advances is the desired option, in some countries cash advances may be the only practical means to distribute cash to vendors and/or beneficiaries due to poor infrastructure. Nevertheless, poor control over cash advances increases the Office's risk to fraud and the Office should take further steps to improve internal control and ensure prompt reconciliation as is required by the Office's rules.

Accounting for grants

41. Two reports found an incorrect application of grant regulations. The Office procedure specifies the use of grants as a financial modality for delivering development assistance under the ILO's mandate. The IAO found that one project office erroneously classified three grant agreements amounting to approximately US$50,000 as seminar expenditure. In another audit, the IAO extracted all charges against the grant account code, which were all project related, totalling some US$100,000. Of the 29 separate transactions accounted for, only two were paid directly to the organizations involved; the rest were purchases of items, such as IT equipment, printers and stationery, which the Office stated were bought on behalf of the beneficiaries. The grants procedure states that financial support should be paid in full to the partner organization, which has the responsibility for implementing the activities on its own and posted to the appropriate account code.

42. Under an ILO grant agreement, there is no requirement for the direct involvement of ILO staff in overseeing the activities of the guarantee. In the IAO's opinion, due to inconsistent reporting of activities, there is a risk that grants may not always be the most effective form of delivery and increases the risk that grants were not applied for the purposes intended. The IAO believes that the Office should reinforce the requirements and applicability of the grants mechanism to ensure procedures are correctly followed.

Governance and the capacity to handle development cooperation projects

43. As part of preparing its risk-based audit plan, the IAO takes into consideration growth in funding for DC projects under an office's purview, with large increases generating possibly high risks. This was the case for two of the audits reported on in 2019, wherein the ILO offices showed a substantial increase in allocations for development cooperation projects. In one case, between January 2017 and July 2018, the current year budget for project implementation had increased 266 per cent from US$3,698,000 to US$13,531,000. In the other office, a new project was starting with the addition of some 21 additional staff, and

two countries under the supervision of the office were each set to more than double their current project budget allocations in a few months' time.

44. In these offices, the IAO found that internal control was functioning adequately. However, the possibility arises that internal control currently working may come under increasing strain as activities expand and, therefore, risks become unmanageable, affecting delivery. To offset this, the relevant regional offices should assess impact before accepting any new projects, as part of a formal risk assessment, in order to take effective action in a timely manner before project implementation begins. The Office should therefore weigh the risks associated with further DC project expansion, and if necessary take appropriate action to ensure concerned country offices adequately maintain internal controls over project governance, risk management, operational and financial management, administration and human resources. Such reviews should form part of the ongoing risk management process.

IT issues

45. The dedicated review of IT issues in the Asia and the Pacific region, as well as the other IAO field audits, brought up issues related to IT, which would be applicable to both field and headquarters operations.

Security awareness

46. The regional IT audit highlighted a good practice by the Regional IT Unit in Bangkok to raise staff awareness concerning IT security risks. It regularly encourages staff to take the online IT Security Awareness Training Course (ISAT), and the Regional IT Officer addresses staff during town hall meetings, presenting IT security risks as well as tips and guidelines for mitigating them. The IAO's review indicated that, at the time of the audit, only 6.1 per cent of staff in the Asia and the Pacific region, and 8.7 per cent of ILO staff worldwide, had completed the ISAT course. As of November 2019, completion of the ISAT course became mandatory within a certain grace period; however, no timeline was established. The Office should define the grace period and thereafter follow up with those officials who use ILO IT equipment and have not completed the course, prompting them to do so. This would help improve security and reduce the risk of cyberattacks through individuals.

47. The audit also identified the need for improved security control over data that Better Work staff held on their laptops following factory visits. Better Work is aware of this issue and is putting in place a new system that will address this matter.

Access to the ILO's Integrated Resource Information System

48. During 2019, the Office completed the roll-out of the ILO's Integrated Resource Information System (IRIS) to offices in the final region, Africa. However, while ILO offices are now connected, many DC project offices do not have access to IRIS. Four of the IAO's reports on field offices called for extending access to IRIS to five DC project offices, in four different countries and to another location in a project country already using IRIS. Introducing IRIS would incur a cost, but the benefits would be improved internal control and improved efficiency. The IRIS system has been successfully rolled out to many DC project offices in the past. These DC offices, many of which boast large and increasing project portfolios, will benefit from improved efficiency by using IRIS. When projects are being designed, the Office should assess if it is feasible and cost effective to grant IRIS access. If

the assessment is positive, the project proposal should include resource estimates to establish IRIS.

External collaboration contracts

49. Internal audit reports continued to note that the requirements of the United Nations Department of Safety and Security (UNDSS), related to required training and requesting of security clearance prior to travel, were not consistently applied to external collaborators. Individuals travelling under ILO contracts are entitled to the same security protection as United Nations staff members. As this has been a recurring issue in the past, the Office has updated the instructions posted on the Security web page of the Department of Internal Services and Administration. This will facilitate compliance with this important requirement to reduce the risk to life and limb of consultants as well as possible repercussions against the reputation of the ILO.

50. The IAO also commented on long-term contracting of external collaborators as well as the reimbursement of travel expenses and the use of the lump-sum payment method to consultants. As external collaboration contracts make up a sizeable amount of expenditure for the Office and play a large role in the delivery of services at both headquarters and in the field, in 2019 the IAO begun a performance audit dedicated to the issue. Findings are expected by the first quarter of 2020.

Gender equality

51. As noted in previous reports, the IAO continues to incorporate in its field office audit procedures an indicator related to audits as part of the ILO's compliance with the UN System-Wide Action Plan on Gender Equality and the Empowerment of Women endorsed by the Chief Executives Board for Coordination. In particular, one of the indicators for which the IAO is a custodian in the ILO Action Plan for Gender Equality 2018–21 is on the percentage of audited field office reports that identify gender-related risks – such as through quality assurance mechanism reviews of Decent Work Country Programmes (DWCPs) – and what mitigating action was taken. The IAO reviews whether DWCPs produced with field offices were shared in draft form through the Quality Assurance Mechanism (QAM) with the ILO Gender, Equality and Diversity Branch (GED), and reflect its input.

52. During 2019, the IAO continued to review compliance. Only one field office had been involved in drafting a DWCP, which had been submitted for the QAM and thus shared with GED, which provided inputs. In another audited office, no DWCP was signed and none was envisaged; however, the field office was aware of the requirements for the review of any DWCP should one be developed in the future.

Follow-up of internal audit recommendations

Office implementation reports

53. The implementation reports provided by the Treasurer and Financial Comptroller relating to the eight audit reports issued by the IAO in 2018 show that management has accepted 186 of the IAO's 197 recommendations (94 per cent). This percentage rate has remained steady over the past five years. The Treasurer and Financial Comptroller identified that, of the 186 recommendations accepted, the Office fully implemented 134 of them (72 per cent), and partially implemented 20 recommendations (11 per cent). There were 21 recommendations

(11 per cent) still in progress, with implementation of the further 11 recommendations (6 per cent) deferred due to budget constraints. These figures generally mirror those of last year.

Timely implementation of audit recommendations

54. In accordance with the ILO Internal Audit Charter, [3] the Office of the Treasurer and Financial Comptroller takes the lead role in following up with responsible managers to monitor that corrective actions have been taken to address issues raised in internal audit reports. Office Procedure, *Follow-up on recommendations of the Office of Internal Audit and Oversight*, IGDS No. 123, states that the units responsible for implementing oversight recommendations must provide their action plans within three months of the audit report being issued. Furthermore, all audit recommendations accepted by management are to be implemented within six months of the report's date.

55. As of mid-December 2019, six IAO reports for this year had been issued prior to the three- and six-month deadlines for reporting referenced by the Internal Audit Charter and the Office Procedure noted above. However, only four implementation reports were closed.

56. The IAO's 2018 audit report, "Follow-up to the Internal Audit Report on the Review of the Payment Process of ILO SHIF Claims and Review of Application Security of the Health Insurance Information System" (IAO/6/2018), was issued on 10 October 2018. The approved implementation report by the Office was produced on 6 December 2019, almost 14 months later. This audit identified four areas of critical control deficiencies that, in the IAO's opinion, carried a high risk of fraud and required attention in a timely manner.

57. The IAO recommends that the Office take action to ensure that all responsible units respect the reporting deadlines and enact all accepted recommendations in a timely manner.

Investigation results

Investigation reports issued in 2018 and completed investigations awaiting reporting

58. The IAO received 50 case referrals in the course of 2019, to add to the 80 that were carried forward from earlier years and the 13 pending reporting, that is, a total of 143 cases. The breakdown of activity for 2019 is as follows:

- 10 cases were investigated, report issued – substantiated;
- 10 cases were investigated, report issued – unsubstantiated;
- 1 case was investigated, report issued – inconclusive;
- 45 cases were reviewed, of which:
  - 23 were found to be unsubstantiated following initial assessment or preliminary investigation;
  - 16 cases where no further action was deemed necessary; and

[3] GB.326/PFA/9(Rev.), Appendix III.

- 6 cases were referred (three cases were referred to HRD as it was considered outside of the remit of the IAO, in 2 cases the IAO consulted with ISAS for appropriate follow-up and in 1 case the IAO referred the matter to the Office of the Legal Adviser for appropriate action);

- 23 cases are awaiting reporting (13 awaiting reporting as substantiated cases and 10 awaiting reporting as unsubstantiated cases);

- 54 cases will be carried forward to 2020, of which:

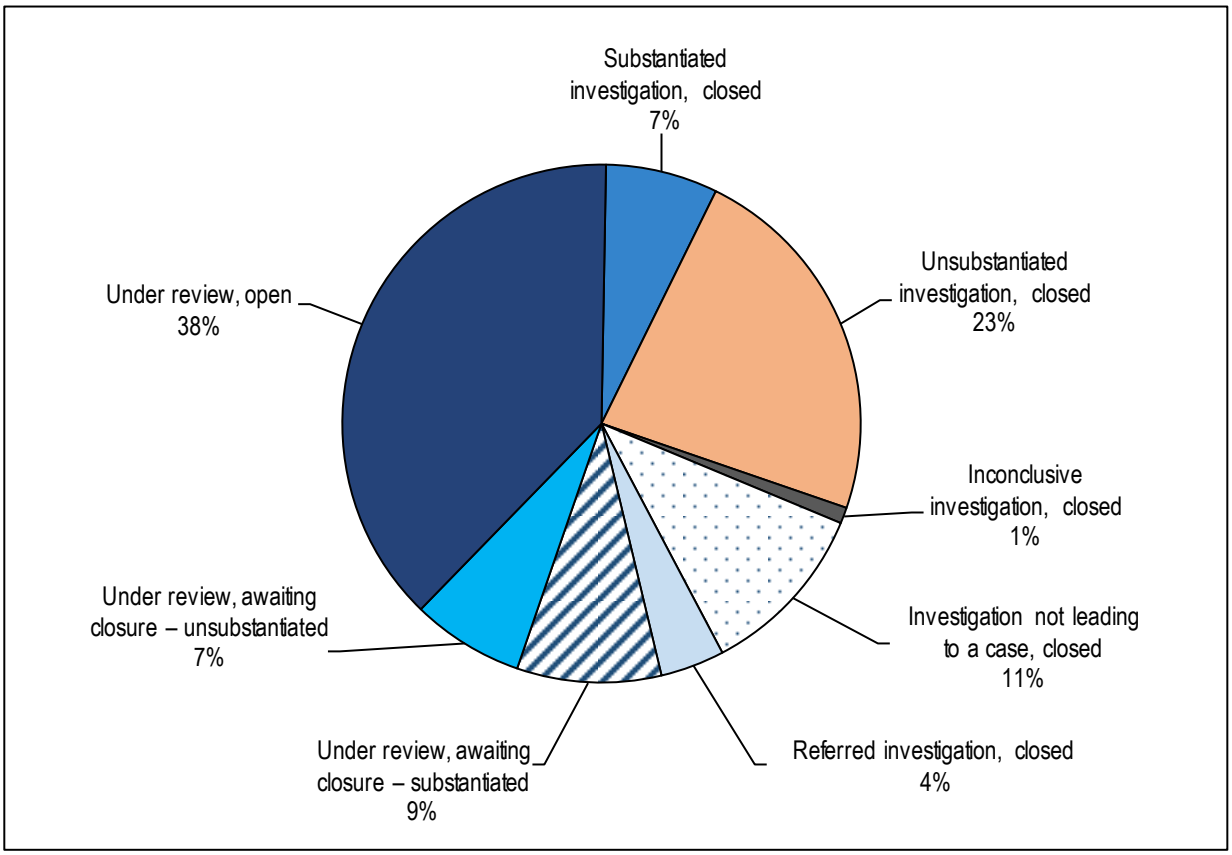
  - 7 cases are subject of full investigations at various stages of completion;

  - 9 cases are preliminary investigations;

  - 6 cases are at the initial assessment stage;

  - 32 cases have been recorded at the intake stage.

Figure 3. Status of IAO investigations as at 31 December 2019



Analysis of cases by category and subcategory

59. The IAO has analysed substantiated investigation reports issued between 1 January 2016 and 31 December 2019 and can provide the following information on types of cases by category and subcategory as detailed in Appendix IV. The statistics indicate that the main category for substantiated fraud cases is that of making fraudulent statements about benefits and entitlements (31 per cent), followed by bribery and corruption (22 per cent). Externally perpetrated fraud accounts for 12 per cent of cases.

Lessons learned arising from investigations

60. The investigations carried out in 2019 identified a number of key issues where lessons can be learned with respect to the department, office or project where fraud or misconduct was substantiated. The IAO notes that many of these issues are recurring:

- the need for improved diligent control before payments are made and benefits afforded;
- the need for awareness-raising on staff obligations regarding outside activities and conflict of interest;
- the need for adequate segregation of duties and supervision particularly in procurement, payment processes and clearing cash advances; and
- the need for due diligence work on the capacity of implementing partners before funding and improved and consistent monitoring of finances and deliverables once funds have been dispersed.

Appendix I

List of internal audit reports issued in 2019

Index No.		Audit reference	Date issued
ILO			
1.	The IAO Updated Audit Plan for 2019	IA 1-6-1 (2019)	25.02.2019
2.	Report on the Internal Audit of the ILO Country Office for Viet Nam in Hanoi Viet Nam	IAO/1/2019	29.01.2019
3.	Report on the Internal Audit of the ILO Office for Turkey in Ankara, Turkey	IAO/2/2019	13.02.2019
4.	Report on the Internal Audit of Information Technology Project Office Operations	IAO/3/2019	08.03.2019
5.	Report on the Internal Audit of the ILO Amman Project Office, Jordan	IAO/4/2019	27.06.2019
6.	Report on the Audit of the Building Renovation Project for the ILO headquarters bin Geneva	IAO/5/2019	18.07.2019
7.	Report on the Internal Audit of the Information Security Management System	IAO/6/2019	24.09.2019
8.	Report on the Internal Audit of the ILO Country Offices for Ethiopia, Djibouti, Somalia, Sudan and South Sudan, and for the Special Representative to the AU and the ECA	IAO/7/2019	01.11.2019
9.	Follow-up to the Report on the Internal Audit of the ILO Projects Office for Haiti in Port-au-Prince, Haiti	IAO/8/2019	06.11.2019
10.	Report on the Internal Audit of Regional Information Technology for Asia and the Pacific	IAO/9/2019	06.11.2019
11.	Report on the Internal Audit of the Sustaining Competitive and Responsible Enterprises (SCORE)programme, Phase III	IAO/10/2019	21.11.2019
12.	Report on the Internal Audit of Data Centre Operations	IAO/11/2019	25.11.2019
13.	Pre-Implementation Review of Better Work's Systems	IAO/12/2019	20.12.2019
Turin Centre			
1.	Report on the Internal Audit of Payroll at the International Training Centre of the ILO in Turin	IA-TC-56 (2019)	20.12.2019

Appendix II

Summary of recommendations

Risk management

In the IAO's view, there is an opportunity to document explicitly, on a consistent basis, risk assessments undertaken in the early stages of project formulation, to inform decisions on project design and before implementation begins.

Audit of Information Technology Project Office Operations

The IAO encourages the Office to implement this recommendation as soon as is practical to secure remaining applications managed outside of INFOTEC and avoid potential security and maintenance problems in the future.

Audit of the Building Renovation Project for ILO headquarters in Geneva

The IAO therefore recommends that, for future projects, the Office should establish with the selected contractor the type of bank guarantee that would provide the best protection for the ILO.

Cash advances to staff

While seeking technology-based alternatives to cash advances is the desired option, in some countries cash advances may be the only practical means to distribute cash to vendors and/or beneficiaries due to poor infrastructure. Nevertheless, poor control over cash advances increases the Office's risk to fraud and the Office should take further steps to improve internal control and ensure prompt reconciliation as is required by the Office's rules.

Accounting for grants

The IAO believes that the Office should reinforce the requirements and applicability of the grants mechanism to ensure procedures are correctly followed.

Governance and the capacity to handle development cooperation projects

The Office should therefore weigh the risks associated with further DC project expansion, and if necessary take appropriate action to ensure concerned country offices adequately maintain internal controls over project governance, risk management, operational and financial management, administration and human resources. Such reviews should form part of the ongoing risk management process.

IT security awareness

The Office should define the grace period and thereafter follow up with those officials who use ILO IT equipment and have not completed the course, prompting them to do so. This would help improve security and reduce the risk of cyberattacks through individuals.

Access to the ILO's Integrated Resource Information System

When projects are being designed, the Office should assess if it is feasible and cost-effective to grant IRIS access. If the assessment is positive, the project proposal should include resource estimates to establish IRIS.

Appendix III

List of investigation reports issued in 2019

Index No.		Date issued
Substantiated (10 cases concluded)		
1	Manipulation of procurement process	13.02.2019
2	Conflict of interest	05.03.2019
3	Corruption (kickbacks)	30.04.2019
4	Corruption (inappropriate behaviour)	07.08.2019
5	Misconduct (inappropriate behaviour)	21.08.2019
6	Falsely claiming sick leave	24.10.2019
7	Implementing partner fraud (nepotism, kickbacks)	01.11.2019
8	Falsely claiming repatriation and installation grant	22.11.2019
9	Misappropriation of funds	25.11.2019
10	Abuse of position of trust (undeclared outside activity)	10.12.2019
Unsubstantiated / inconclusive / referred / no further action (56 cases concluded)		
1	Misuse of Office vehicle – unsubstantiated	05.03.2019
2	Abuse of authority – unsubstantiated	06.03.2019
3	Falsely claiming dependency benefits and conflict of interest – unsubstantiated	07.03.2019
4	Misconduct (inappropriate behaviour) – inconclusive	16.05.2019
5	Unethical behaviour (false accounting) – unsubstantiated	27.05.2019
6	Memo where no further action taken (24 cases of which 7 were closed noting no further action following intake or initial assessment, 17 were closed and classed as unsubstantiated following a preliminary investigation)	25.06.2019
7	Misuse of project funds (false accounting) – unsubstantiated	14.08.2019
8	Misconduct (inappropriate behaviour – recruitment) – unsubstantiated	23.10.2019
9	Memo where no further action taken (21 cases of which 9 were closed noting no further action following intake or initial assessment, 6 were closed and classed as unsubstantiated following a preliminary investigation and 6 were referred for information and possible follow up by other departments)	16.12.2019
10	Consolidated report on SHIF cases (4 cases – unsubstantiated)	17.12.2019

Appendix IV

Substantiated cases by category and subcategory completed (2016–19)

2015	**1**
Making fraudulent statements	1
2016	**8**
Bribery and corruption	1
Externally perpetrated fraud	2
Making fraudulent statements	3
Professional misconduct	1
Theft	1
2017	**11**
Abuse of position of trust	1
Bribery and corruption	4
Making fraudulent statements	4
Professional misconduct	1
Theft	1
2018	**8**
Bribery and corruption	1
Externally perpetrated fraud	2
Making fraudulent statements	2
Professional misconduct	2
Theft	1
2019	**4**
Abuse of position of trust	1
Bribery and corruption	1
Professional misconduct	1
Theft	1
Grand total	**32**