Programme, Financial and Administrative Committee

PFA

FOR INFORMATION

SIXTH ITEM ON THE AGENDA

Audit questions

Report of the Chief Internal Auditor for the year ended 31 December 2008

Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2008

1. 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 2008 (see appendix).

2. 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.

Geneva, 12 February 2009.

Submitted for information.

Appendix

Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2008

Introduction

1. The Office of Internal Audit and Oversight (IAO) of the ILO fulfils an independent oversight function established under article 30(d) of the Financial Regulations and Chapter XIV of the Financial Rules. Through audit, inspection and investigation processes, the IAO determines the adequacy and effectiveness of the Organization's system of internal control, financial management and use of assets. Its aim is to provide reasonable assurance that the activities have contributed to the attainment of the Organization's goals and objectives. The IAO adopts a proactive approach to facilitating the assessment of risks and controls, and promotes a cohesive Office-wide approach to risk management and a learning culture in support of management's process to enhance efficiency, effectiveness and value for money in the activities of the Organization.

2. The IAO conducts its audits in accordance with the Institute of Internal Auditors International Standards for the Professional Practices of Internal Auditing. The IAO aims to bring a systematic, integrated and strategic approach to the IAO's assurance audits to facilitate the identification and reporting to management of significant issues in a timely manner.

3. 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. The IAO has full and free access to all records, personnel, operations, functions and other material relevant to the subject matter under review.

Summary of results

4. During 2008, the IAO issued eight assurance audit reports: four reports on visits to field offices; two concerning project audits; and two relating to headquarters activities (see list of reports issued in the annex). Seven technical cooperation projects were covered by the IAO's reviews. Except for one of the field offices visited, the results of the IAO's activities have not indicated any major weakness in the ILO's system of internal control concerning those areas audited in 2008. However, the IAO cannot provide comment on those areas that have not been subject to an internal audit during 2008.

5. The IAO also issued two investigation reports. At the end of 2008, the IAO had six cases still pending, awaiting receipt of additional information to determine whether or not the cases merit further investigation.

Office-wide issues

6. The IAO's reviews and investigations identified a number of common findings and issues that have Office-wide implications, as reported below, which the Chief Internal Auditor believes presents the Office with an opportunity to strengthen further the ILO's system of internal control; efficiency and effectiveness of operations; as well as enhance the overall internal governance of the ILO.

Training

7. The 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.

8. 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.

9. 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.

Accountability framework

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 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. Furthermore, the fact that many of the IAO's observations are recurring may indicate a blurring of responsibilities between those who should take action and those who should ensure that such action is taken.

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 International Public Sector Accounting Standards; 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 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.

Work planning

12. 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.

13. 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.

Risk management

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.

Business continuity planning

15. The Office has made substantial progress with the development of a business continuity plan. In 2008, the development of the business continuity plan focused on the business processes at headquarters and the Office has begun to implement steps to ensure critical business processes would continue should a catastrophic event occur. The target date for release of the ILO's Business Continuity Plan document is February 2009, after an awareness session has been provided for senior managers.

16. In 2009, the Office plans to expand this exercise to develop a business continuity plan to cover field activities. To this end, workshops have been held for those field staff nominated as security focal points to provide them with the basic training needed to begin developing such a plan.

Financial and budget management in field offices and projects

Bank signatories

17. 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 headquarter 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.

18. Maintenance of a current list of valid bank signatories is an essential element of financial management control, reducing the Office's exposure to error, financial irregularities and/or fraud. 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.

The Financial Information System for External Offices

19. 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 Financial Information System for External Offices (FISEXT).

20. 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 technical cooperation operations. Not only can its effective application improve internal control, but it can also bring efficiencies to work procedures.

21. 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 technical cooperation projects that could benefit from having FISEXT made available at the project level.

Effects of exchange rate movement on budget management

22. 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.

23. 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 local currency to do so. At the time of audit, there was a serious threat to continued project operations had this budget issue remained unresolved.

24. Although the Financial Services Department (FINANCE), 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 FINANCE take appropriate action to identify projects of this nature at an early stage, and ensure budgets reflect exchange rate movements in a timely manner. In response to the recommendation, FINANCE has instituted new procedures pertaining to decentralized projects funded in local currency. All such projects have to be submitted to the Treasurer for approval. Once approval is given, FINANCE will issue instructions to field office staff that they must revalue the project budget in the ILO's budgetary system on a monthly basis to reflect local currency exchange rate movement against the US dollar.

Other significant findings

Procurement

25. 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.

26. 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:

   – the mandate of the Procurement Bureau (PROCUREMENT) and where best to utilize scarce resources therein;

   – the role that the Department of Partnerships and Development Cooperation may have to oversee the process of evaluating the capabilities of partner organizations subcontracted to deliver elements of technical cooperation projects;

   – PROCUREMENT serving as the repository for all agreements, and monitoring contract end dates;

   – establishment of local contracts committees;

   – 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

   – implementing the Oracle Fixed Asset module in advance of the introduction of the International Public Sector Accounting Standards (IPSAS) in 2010.

Field audits

27. 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 Subregional Office for Eastern Europe and Central Asia (SRO-Moscow).

28. 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.

ILO/ITU Staff Health Insurance Fund (SHIF)

29. The audit of SHIF covered the overall management of the Fund, the activities of the secretariat at the ILO, and assessed the adequacy of the system of internal control over insurance claims processed by unit. The IAO did not find any material weakness in the control environment. 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), [1] 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. [2] 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.

Investigations

30. In 2008, the IAO reported on two investigations. One case concerned allegations of financial irregularities that took place in a technical cooperation project. The investigation found evidence to substantiate the allegations and the TR/CF referred the case to the Committee on Accountability. Because the transactions were several years old, the IAO was not able to make any estimate of the amount of loss that the Office may have suffered. The other case alleged discriminatory appointments made by the director of an ILO office. The IAO found that no ILO rules were broken; thus no further action was taken. Lessons learned from the investigations have been incorporated into Office-wide issues.

31. The IAO began developing protocols to delineate the types of cases that the newly created Investigation Unit will handle as well as the reporting lines between the IAO and the TR/CF, the Human Resources Development Department, and the Office of the Legal Adviser and the Office of Legal Services. Work on finalizing the procedures will continue in 2009.

Follow-up

32. The follow-up response to recommendations contained in the IAO's 2008 internal audit reports has been varied. In most cases the Office, or function under review, provided a report on the status of implementation, which the IAO reviewed and followed up on as necessary. However, in three cases the Chief Internal Auditor has received no formal written response, despite reminders being sent to the responsible manager of the office/function subject to review.

33. During the 2008 audits of the Subregional Office in Europe, the Regional Office for Latin America and the Caribbean, and the ILO's procurement function at headquarters, the IAO reviewed the implementation of recommendations arising from earlier audits conducted in 2003, 2004 and 2005, respectively. The IAO found that the sustained level of implementation required improving.

34. One of the common factors with regard to the Regional Office, SRO-Moscow and PROCUREMENT was that each underwent frequent change in management. As the Office does not have in place a systematic mechanism to ensure follow-up and implementation of the IAO's recommendations, the continued implementation of audit recommendations may have been overlooked during the changeover period. In the IAO's view, had there been

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[1] GB.298/PFA/4.

[2] GB.301/PFA/5.

sustained implementation of earlier recommendations, many of the issues identified in the more recent reports may have been avoided.

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 each other to establish a more systematic mechanism to ensure adequate and timely follow-up by the responsible managers.

International Training Centre of the ILO (Turin Centre)

Risk-based plan

36. In 2008, the IAO prepared a plan based on a risk assessment of the Turin Centre. As part of the risk assessment, the IAO consulted with senior Turin Centre colleagues to determine the major risks facing the operations of the Turin Centre. The risk-based plan was submitted to the Turin Centre's Executive Director in July 2008. The plan drew three important issues to the attention of the Turin Centre's senior management: risk management; accountability and transparency; and the regulatory framework of the IAO.

37. The IAO emphasized the need for the Turin Centre to continue to take forward the process of developing a risk-management process, which it began the year before; and suggested how the Turin Centre could further improve accountability and transparency by drawing on developments at the ILO concerning anti-fraud policy; declaration of financial interests; potential or actual conflicts of interest; and ethics training. The Turin Centre has adapted the circulars issued by the ILO on these topics and issued its own circulars in 2008.

38. As regards the regulatory framework of the internal audit function, the IAO believes that this can be strengthened as the current mandate as stated in the Turin Centre's Financial Rules does not reflect the present-day role and function of an internal audit service, as defined by the Institute of Internal Auditors. The IAO proposes that the Turin Centre's Financial Regulations be revised to be more in line with those of the ILO. This would better reflect the role and purpose of the internal audit function, underpin the scope and authority of the Chief Internal Auditor, as well as provide for annual reporting by the Chief Internal Auditor to the Board of the Centre. The IAO proposes that draft revised rules concerning the internal audit function be presented to the next Board meeting for its consideration.

Audit assignments

39. In 2008, the IAO undertook two audit assignments at the Turin Centre: a comprehensive review of the Centre's procurement function; and a review of the operation of the Centre's current account with the ILO through which inter-office transactions are recorded and reported.

40. The fieldwork on the procurement assignment has been completed and a final draft report submitted to Turin Centre colleagues. The finalized report should be issued early in 2009. The audit assignment covering the Turin Centre – the ILO current account is work in progress and shall be completed in 2009.

Client service

41. In accordance with its mandate to provide valued added services, the IAO on request provided support to various units and departments in 2008.

42. In response to a request from the Regional Office for Latin America and the Caribbean, the IAO developed and delivered an in-house workshop on "Fraud awareness and reporting" to the region's administrative and finance staff as part of their training week. The workshop was tailored to reflect the culture and working environment of the ILO. Also, all staff in the Regional Office were invited to attend two presentations: one on fraud awareness; and the other on principles of risk management.

43. Throughout 2008, on request from management, the IAO provided inputs and comments on numerous Office policy and procedure papers.

The IAO's internal quality control

44. As reported to the Governing Body in 2008, [3] the IAO underwent an external quality review, which reported that, overall, the IAO complies with the Institute of Internal Auditors standards. As a follow-up to the 2007 review, the IAO has taken the following action in response to eight key areas identified as needing improvement:

   – *Rebalance time spent on investigations against assurance audits:* The IAO's investigation unit is now staffed with one professional and one assistant. This should help ensure a rebalance between investigations and assurance audits.

   – *More frequent reporting:* The Chief Internal Auditor meets regularly with a representative from CABINET, and the IAO's audit plan is updated on an annual basis and communicated to the Director-General.

   – *Training hours:* In 2008, the IAO met all the training requirements required by the Institute of Internal Auditors' professional standard. IAO staff are also undertaking language courses in French and Spanish to strengthen the unit's language capacity.

   – *Reduce average audit reporting cycle:* For assignments undertaken in 2008, the IAO has issued its reports within the target cycle of four to five months.

   – *Key performance indicators:* The IAO has begun to work on these, for example, setting target dates for finalizing reports.

   – *Formalize work planning procedures:* The IAO has introduced new work planning procedures to formalize the process at the audit assignment level.

   – *Feedback from auditees:* At the end of each audit assignment, the IAO systematically sends out an audit satisfaction questionnaire to the auditee seeking their feedback.

   – *Annual self-assessment against the Institute of Internal Auditors' standards:* Training is planned to refresh and update IAO staff on the requirements of the Institute of Internal Auditors' standards. Following this training, the IAO shall conduct a self-assessment.

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[3] GB.301/PFA/6.

Annex

List of internal audit reports in 2008

ILO	Audit reference #	Date issued
Report on the internal audit of the ILO Office in Brazil (ILO-Brasilia), which included a review of the technical cooperation project "Combating trafficking of persons in Brazil" (BRA/05/01/USA)	IAO/8/2007	23 April 2008
Report on the internal audit of the ILO Regional Office for Latin America and the Caribbean (RO-Lima) and the Subregional Office for the Andean Countries (SRO-Lima), which included a review of the technical cooperation project "Promotion of the youthful use in Latin America" (RLA/05/04M/SPA)	IAO/9/2007	30 June 2008
Report on the internal audit of the Staff Health Insurance Fund of the ILO and the ITU (SHIF)	IAO/10/2008	6 May 2008
Report on the internal audit of the ILO Office in Madagascar (ILO-Antananarivo)	IAO/11/2008	7 July 2008
Report on the internal audit of the HIMO projects: – Construction of primary schools in Madagascar (MAG/05/01/NOR) – Construction of primary schools in Madagascar (MAG/05/02/MAG) – HIMO communal (MAG/06/01/NOR)	IAO/12/2008	27 June 2008
Report on the internal audit of the procurement services	IAO/13/2008	22 September 2008
Report on the internal audit of the Subregional Office for Central Asia and Eastern Europe (SRO-Moscow)	IAO/15/2008	19 December 2008
Report on the internal audit of the Management of Technical Cooperation projects in Tajikistan (SRO–Moscow): – Social consequences of migration in Tajikistan (TAJ/06/01M/FIN) – Community development through employment creation and improved migration management (TAJ/05/01M/HSF)	IAO/16/2008	19 December 2008
International Training Centre of the ILO in Turin		
Risk assessment and strategic plan	IA 1-6 (2008–09)	July 2008
Report on the internal audit of the International Training Centre procurement practices	IA TC-38	January 2009