



## Governing Body

320th Session, Geneva, 13–27 March 2014

GB.320/PFA/10(Rev.)

**Programme, Financial and Administrative Section**  
*Audit and Oversight Segment*

**PFA**

**Date:** 12 February 2014  
**Original:** English

TENTH ITEM ON THE AGENDA

### **Report of the Chief Internal Auditor for the year ended 31 December 2013**

### **Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2013**

**Purpose of the document**

This paper contains the report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2013 for consideration by the Governing Body.

**Relevant strategic objective:** Governance, support and management.

**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:** None.



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 2013.
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 Internal Audit and Oversight Office are thoroughly evaluated and there is constant dialogue between managers and the Chief Internal Auditor to give effect to them.



## Appendix

### Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2013

#### *Introduction*

1. The Internal Audit and Oversight Office (IAO) of the ILO 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 Charter, which was approved by the Governing Body at its 301st Session, in March 2008. The Governing Body approved a revised version at its 307th Session, in March 2010.
2. The IAO's mission is to provide the Governing Body and the Director-General with an independent, objective assurance activity designed to add value and improve the ILO's operations. The IAO also 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, control and governance processes.
3. In addition, the IAO's mandate includes a responsibility to conduct investigations into allegations of financial or administrative misconduct and other irregular activities. The IAO reports the results of its investigations to the Director-General. All investigation reports contain an assessment of whether or not the allegations are substantiated based on evidence obtained during the investigation. The IAO does not make any recommendations for disciplinary action to be taken against individuals or third parties in its reports.
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) and the Uniform Guidelines for Investigations as adopted by the Conference of International Investigators of the United Nations organizations and multilateral financial institutions.
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 Charter, the IAO has full and free access to all records, personnel, operations, functions and other material relevant to the subject matter under review.

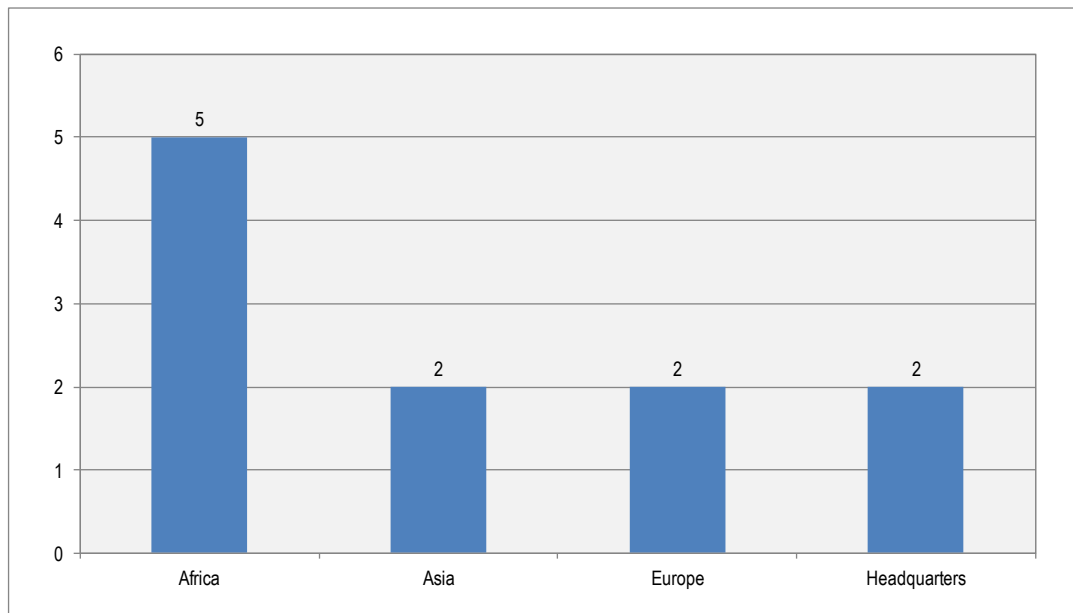
#### **Summary of activities**

6. This section provides a brief overview of the main activities undertaken by the IAO in 2013.

#### Assurance audits

7. During 2013, the IAO issued ten assurance audit reports and one follow-up report. Two assurance audit reports cover headquarters functions, and eight relate to audits conducted at ILO field office locations (see Annex I). The IAO has completed the fieldwork for a further eight audit assignments, which are in various stages of reporting. Two assignments are in progress. The Chief Internal Auditor will present a summary of the findings arising from these audits to the Governing Body in March 2015. Figure 1 shows the number of assurance audit and follow-up reports issued in 2013 by geographical region and at headquarters.

Figure 1. Assurance audit and follow-up reports by region and at headquarters (2013)



### Investigations

8. In 2013, the IAO received 21 allegations. A breakdown of the status of these allegations as at 31 December 2013 is as follows:
  - two allegations were substantiated without requiring a full investigation;
  - the IAO completed investigations into three of the allegations and has reported its findings;
  - the IAO completed the fieldwork to address six allegations and will issue the related reports in 2014; and
  - ten allegations remained open.
9. The IAO issued a further three investigation reports in 2013 relating to allegations received in 2012.

### Other activities

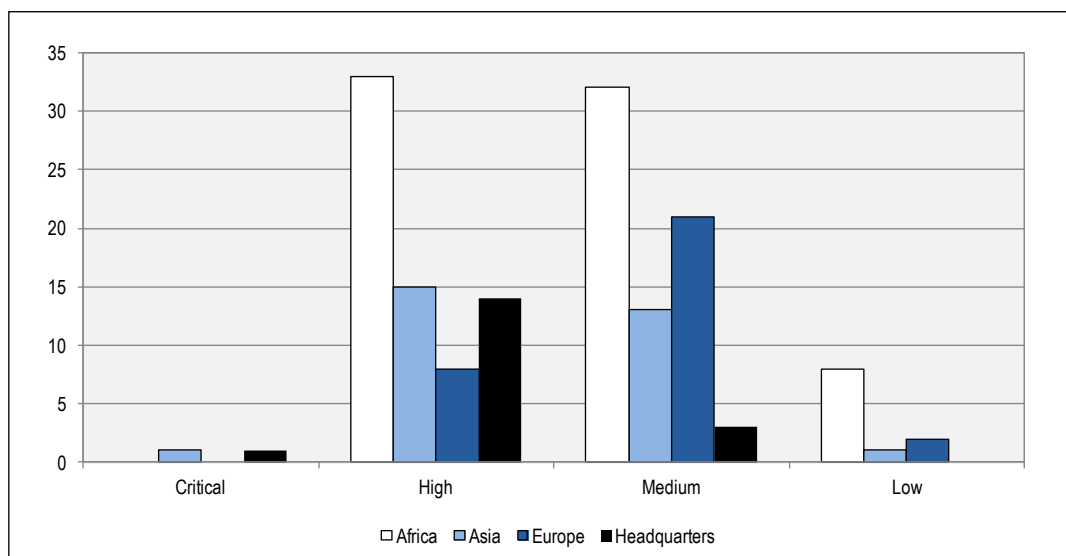
10. The IAO provides internal audit services for the International Training Centre of the ILO (the Turin Centre). In 2013, the IAO issued three assurance audit reports for the Turin Centre, covering the costing of the Centre's training programmes, the cost sharing methodology of the Centre's campus incurred expenditure and a report on the Centre's Oracle e-Business Application. The summary results of internal audits are reported to the Board of the Centre during its annual meeting.
11. In 2013, the IAO delivered seven presentations and training sessions on anti-fraud awareness and prevention at ILO offices around the world, including in Bangladesh, Ethiopia, Ghana and Peru, and at headquarters and the Turin Centre. The IAO attended the meetings of the Steering Committee for the Headquarters Renovation Project as an observer and attended user representative meetings for the business continuity project, and has actively contributed to the human resources employee profile project. The IAO has also provided other ad hoc advice to management on request.

12. Officials from the IAO's internal audit and investigation units actively participate in their respective United Nations (UN) oversight peer groups (the UN Representatives of Internal Audit Services and the newly formed UN Heads of Investigations Group) to share best practices and experiences among member organizations.

### Summary of audit results

13. In the 11 audit reports issued in 2013, the IAO identified many positive examples of risk management but also areas for improvement, and it reported on some 152 audit findings of varying significance for the ILO, ranging from low to critical importance. Only two issues were assessed as being of critical importance, relating to governance practices for the Headquarters Renovation Project and the approval process of a field-based technical cooperation project. Overall, the IAO did not identify any major weakness in the ILO's system of internal control, except for the two critical items, which are commented on below.
14. The IAO's analysis of audit findings in 2013 by region and at headquarters and by significance is shown in figure 2. The IAO identified 70 (or 46 per cent) audit findings of high significance in 2013, which highlights that there is an opportunity to enhance the control environment at the entity level. In this regard, the IAO recommends that the Office should investigate ways to share the lessons learned from control issues identified during audits of the regional offices and headquarters departments, and communicate specific initiatives to implement recommendations during regional meetings. As appropriate, the IAO can work with management to take this recommendation forward.

**Figure 2. Audit findings by region and at headquarters and by significance in 2013**



15. As noted in this report, under the section entitled "Main findings of field audits", there is scope for improving internal controls across the ILO with respect to the performance appraisal cycle, business continuity planning, information technology and the management of implementing partners. The IAO is pleased to note that the Office is implementing initiatives in most of these areas, which will address many of the control issues identified by the IAO. The IAO will assess these initiatives when performing its risk assessment as part of its regular and ongoing audit planning process, and will incorporate them into the annual audit plan as necessary.

## **Internal governance**

16. The IAO's audits and other activities identified the two following issues that have Office-wide implications and which, if addressed, could enhance internal governance and risk-management processes.

## **Business continuity planning**

17. As part of its risk management initiative, the Office is undertaking a business continuity project, led by the Treasurer and Financial Comptroller, which commenced in 2013. The project is being undertaken in two parallel phases; one at headquarters and the second covering ILO field locations. The aim of this project is to prioritize the ILO's business processes and better prepare the Office to continue working on core functions in the event that its offices are physically not accessible, or certain IT services are not fully functional as a result of a catastrophic event.
18. The IAO's field office audits in 2013 highlighted seven instances where business continuity plans were either incomplete or not formally finalized, or where staff were inadequately prepared to deal with emergency situations. Pending the completion of the phase of the project concerning field locations, the Office should encourage the Directors of those field offices susceptible to a high risk of natural disasters or civil unrest to develop, test and document basic business continuity plans to ensure that core functions and communications can be re-established with headquarters and external partners as required in the event that their office becomes inaccessible or key information system services are unavailable; for example, the Regional Office for Africa developed a basic business continuity box. In addition, field offices should communicate to the business continuity planning team at headquarters any lessons learned from having to manage a major event that had a severe impact on operations, to ensure that these lessons are considered in a timely manner for possible inclusion into the ILO's business continuity plan, and shared with other ILO offices as appropriate.

## **Information technology**

19. The Office has a number of projects under way to modernize the information technology in use at the ILO, such as the upgrading of the electronic mail system, the network and the end-user computer infrastructure. These projects are essential to facilitate the continuity of communications internally as well as with the ILO's business partners and constituents around the world. They should also improve controls over end-user computing, by imposing a more rigorous approval process for installing software on end-user computers, and should reduce the number of calls to the helpdesk to resolve related issues.
20. In July 2013, the Office established a new information technology governance structure that is more holistic in its mandate than the previous structure. It comprises a high-level Information Technology Governance Committee (ITGC), which can make recommendations to the Director-General on matters relating to information technology (IT), and is supported by three advisory subcommittees. The ITGC replaces the Governing Board of the ILO's Integrated Resource Information System (IRIS), which last met in August 2013. As at 31 December 2013, the ITGC had not yet been convened due to other priority initiatives related to reform. As the ILO's highest level IT governance committee, the ITGC has an essential role in developing strategy and establishing priorities for mobilizing information technology resources effectively, and the IAO therefore suggests that the Secretary of the ITGC should prepare a meeting schedule and hold regular meetings as soon as is practical.



## **Headquarters audits**

21. In 2013, the IAO issued audit reports on the urgent renovation works and the governance structure of the Headquarters Renovation Project and on the Office's Pension Unit and the Voluntary Thrift Benefit Fund.

### **Urgent renovation works and the governance structure of the Headquarters Renovation Project**

22. With an estimated budget of 203.4 million Swiss francs (CHF), the Headquarters Renovation Project is the largest capital project the ILO has ever undertaken and, if managed well, will facilitate continued progress in achieving its strategic objectives and providing services of a high quality to its constituents, as well as improve the ILO's "carbon footprint" and reduce running costs. The IAO's audit coverage focused on the phase 1 components of the project, conducted between 2007 and 2010. Phase 1 is budgeted at CHF89.1 million. The audit also reviewed the project governance structure that was in place at the time of audit.
23. The IAO found opportunities to improve controls over the Headquarters Renovation Project's governance structure by further clarifying and defining the roles and responsibilities of the Project Steering Committee, developing a succession plan to identify senior staff capable of managing a complex construction project and improve coordination between the Project Pilot and the Project Team. The IAO ranked its findings on the project governance structure as critical, as a robust project governance structure is essential to ensure that the right information gets to the right people in a timely manner to inform decision making and provide an early warning should implementation deviate from plan or budget. The audit also identified challenges in effectively managing the change order process, and found that more robust change order controls are required in this area to manage costs and delivery times effectively. The IAO notes that the Office is in the process of taking measures to address these issues.
24. The Office appointed a Project Manager in November 2012. This appointment should provide improved coordination among all parties involved in the renovation works and should contribute to an enhanced control environment. In May 2013, the Office introduced changes to the governance structure for the Headquarters Renovation Project, including the establishment of a Project Governance Committee and a Coordination Committee which includes representatives of the Swiss authorities to provide, inter alia, advice on Swiss building regulations. It also further clarified the roles and responsibilities within the governance structure. The IAO will review the processes that support the new structure in future audits, as well as the process of managing change orders.

### **The Pension Unit and Voluntary Thrift Benefit Fund**

25. The ILO's Pension Unit maintains business relations with the secretariat of the United Nations Joint Staff Pension Fund (UNJSPF), which manages the investments of the ILO's pension contributions and those of other UN agencies. The Unit is responsible for providing the UNJSPF with accurate and timely information regarding ILO staff pension records. The Unit also managed the Voluntary Thrift Benefit Fund until its recent transfer to the ILO Staff Compensation Unit.
26. The audit highlighted several opportunities to improve communications with the UNJSPF, modernize long-standing paper-based processes, expand the IRIS system to manage staff pension records and improve controls over safeguarding ILO staff pension records. In the light of the reform initiative currently under way, the IAO believes there is an excellent opportunity to review the Pension Unit's existing practices. The IAO notes that the Office is taking positive steps in this regard.

27. The IAO also found opportunities to scrutinize more closely the activities of the third-party fund managers responsible for managing the Voluntary Thrift Benefit Fund investments and noted that the size of the Fund has been steadily declining in recent years.
28. The IAO recommends that the Office should reassess the investment strategy in order to guide the managers of the Voluntary Thrift Benefit Fund in taking investment decisions. The Office should also carry out an assessment as to the future viability of the Fund and of what actions, if any, may need to be taken. The Pension Unit should also set investment objectives for the Fund and should periodically monitor its performance against the established objectives.

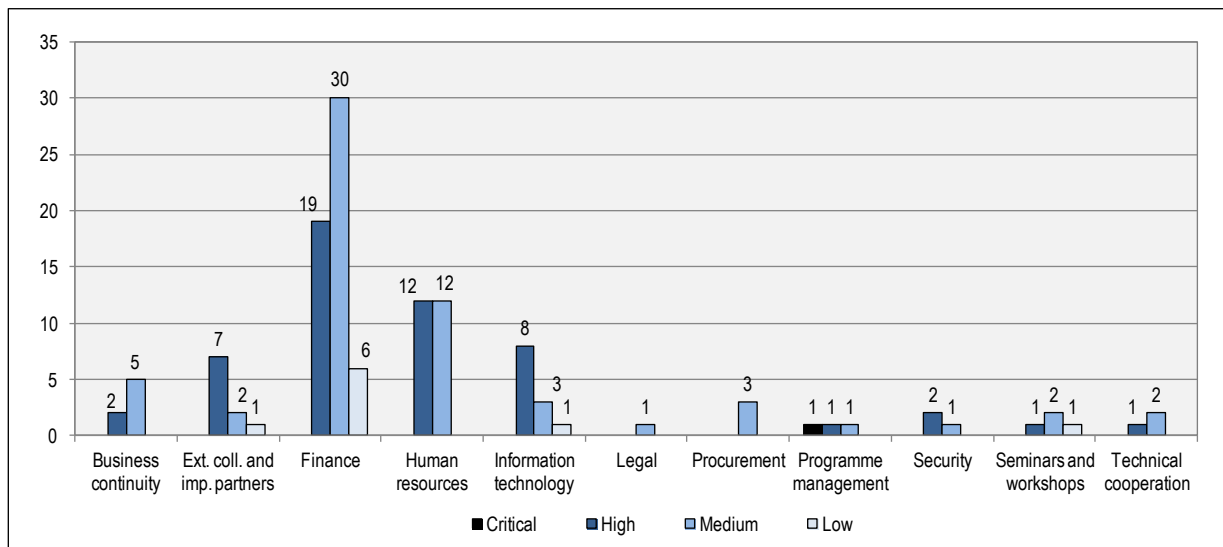
**Field audits**

29. In 2013, the IAO issued eight assurance audit reports for audit work conducted at ILO field-office locations, in Algeria, Hungary (two reports), Madagascar (two reports), Pakistan, Philippines and Zambia. The IAO commented on certain positive aspects of the control environments of the locations audited, with many of the offices having established internal controls to manage the risks assessed by the IAO as being relevant to their operations. While the IAO identified a significant number of high-risk issues relating to finance processes (19) and human resources processes (12), it also noted that, as in previous years, there is scope for improving internal controls with respect to the management of implementing partners, external collaborator contracts, business continuity planning, and information technology. Controlling these areas presents a continuing challenge for ILO offices around the world, as explained in further detail in the following section.

**Main findings of field audits**

30. The IAO has classified the issues identified during audits of field-office locations in 2013 as in figure 3 below.

**Figure 3. Field audit findings by category in 2013**



**Finance processes**

31. The IAO’s field audits generally focus on the financial management of the ILO’s operations, as reflected in figure 3 above. The 19 high-significance audit findings identified during the IAO’s audits in 2013 concerning financial issues primarily relate to the following categories:

- payments of value added tax (VAT);
  - authorized bank signatories;
  - the use of the IRIS system; and
  - donor funding and reporting.
32. The IAO has provided further details below on the most frequently occurring high-risk issues identified, which relate to VAT payments and authorized bank signatories, and the critical finding, which concerns programme management controls over project formulation and approval at one ILO field office.

*Project formulation and approval*

33. During the audit in one field office, the IAO found that the approach taken to formulate and approve a project that was developed at the local level did not secure funding for the planned lifetime of the project. This, combined with a lack of effective communication between the field office, the regional office and headquarters, led to a situation where the project had to close earlier than anticipated. While this was a “one-off” finding, it was deemed critical in the IAO’s opinion as the project activities had to cease earlier than envisaged by the original plan, and this may have been avoided had there been better communication at the inception stage between the field office, the regional office and headquarters.
34. The Partnerships and Field Support Department (PARDEV) informed the IAO that, as a result of the reform process, a new unit – the Development Cooperation Support Unit – had been established, to facilitate quality control and communication when projects are in the inception stage, to reduce the risk of the above recurring. To support this new unit, the IAO suggests that the process of project approval should be formalized in a workflow, include provisions for securing funding for the whole project lifetime, and be consolidated in a Procedure issued by the Office through the Internal Governance Document System (IGDS).

*Payment of value added tax*

35. Under the Convention on the Privileges and Immunities of the Specialized Agencies, approved by the General Assembly of the United Nations on 21 November 1947, in countries acceding to the Convention, the ILO is exempt from paying direct taxes and customs duties, which includes taxes that form part of the price to be paid (VAT). In three instances, the IAO found inconsistencies in the treatment of VAT payments in countries that have acceded to the Convention. The IAO found that, although certain ILO offices were eligible to claim VAT refunds on purchases, at the time of the audit, they had not been reimbursed. In one case, the IAO found that recoverable VAT amounted to approximately US\$60,000.
36. In September 2013, the Office issued a Procedure establishing the ILO policy for the accounting of VAT and the steps that should be taken to implement it.<sup>1</sup> In order to facilitate communication of this policy to field office finance staff and managers, the IAO suggests that the Procedure should be included in the agenda of regional meetings of finance and administration staff to raise their awareness of its contents and the actions that need to be taken to secure VAT refunds when eligible.

*Authorized bank signatories*

37. The IAO identified a need to update the lists of authorized bank signatories at three locations and noted that the lists in general contained the names of staff that no longer had the authority to approve payments due to retirement or transfer.

<sup>1</sup> Office Procedure No. 340 (Version 1), *Value added tax (VAT) and other indirect taxes*, 10 Sep. 2013.

38. The ILO's Treasury and Accounts Branch is currently investigating ways to streamline the ILO's banking structure, to reduce the reliance on local bank accounts. This would go some way towards minimizing the risk of bank signatory lists becoming obsolete. Until such time as this review has been completed, the IAO encourages the regional offices to continue with their annual exercise to review bank account signatories in field offices, to ensure that they are kept up to date and, more importantly, are valid.

#### *Human resources*

##### *Performance cycle*

39. The ILO's performance management system was overhauled in July 2009, and the Human Resources Development Department (HRD) has been proactive in disseminating information on the new Performance Management Framework and offering support in its implementation. In the IAO's view, there has been ample time for staff and managers to adapt to the new framework.
40. In the course of its field audits, the IAO found that completion of the staff performance cycle was inconsistent. In three locations visited, the IAO noted excessive delays in submitting staff performance appraisals. Although HRD develops tools and maintains the Performance Management Framework, it is the responsibility of line managers to ensure that all components of the performance cycle are completed. HRD has taken steps to ensure that the performance objectives of staff with managerial responsibilities include completing the performance cycle for staff under their responsibility, and is about to introduce a new web-based tool to support managers in monitoring completion of each component of the appraisal system. This presents a good opportunity for the line-management hierarchy in the regional offices to make use of the new tools to establish a system that enables regular monitoring of completion rates and thus makes it possible to actively follow-up with those offices that do not fully complete the performance cycle in a timely manner.

##### *External collaboration contracts*

41. The ILO regularly enters into external collaboration contracts with individuals who perform specific tasks or a set of tasks to support the ILO's operations. The ILO's Office Directive on the subject<sup>2</sup> stipulates that external collaboration contracts can be established only with individuals and not third-party companies or other legal entities. In addition, external collaboration contracts can be used only where the output can be considered as a specific end product.
42. At five locations, the IAO identified a need to improve controls over the engagement and management of external collaborators. At one location, the office had awarded multiple external collaboration contracts exceeding US\$60,000 to a third-party company, rather than to an individual, as is required by the Office Directive. At a second location, the IAO found that original copies of external collaborator contracts were not held by the office, and that contracts were not established for all-inclusive amounts as recommended by the Office Directive.
43. A third location did not centrally record all relevant information related to external collaboration contracts for performance management purposes and awarded external collaborator contracts over extended periods to circumvent budgetary controls. A fourth location generally managed external collaborator contracts appropriately. However, the IAO found at least three individuals who had been awarded long-term external collaboration contracts to undertake routine work. In addition, the office in question could not provide adequate justification for the excessive contract rates paid to one individual.

<sup>2</sup> Office Directive No. 224 (Version 1), *External collaboration contracts*, 9 May 2011.

44. At the fifth location, the office entered into agreements with external collaborators, but did not retain sufficient background information to provide adequate documentation to support the decision to enter into a contract arrangement with the individuals concerned.
45. Field offices should implement more stringent monitoring of all external collaboration contracts to ensure that all contracts with external collaborators are fully justified and supported with relevant documentation in accordance with the Office Directive on the subject. As necessary, regional offices should provide support to the field offices to ensure that they comply with the requirements of the Office Directive, to reduce financial, legal and reputational risk.

#### *Information technology in field offices*

46. IT continues to play a fundamental role in the delivery of ILO services to constituents around the world. The IAO has found that recent initiatives by the Information and Technology Management Department (INFOTEC) to remotely monitor security vulnerabilities on computer workstations and servers at field-office locations are playing an important role in improving IT controls. However, the IAO consistently identifies issues related to backup processes, the off-site storage of ILO data, physical access to IT infrastructure and the inadequate monitoring of administrator activities at the regional level. In order to help reduce IT risks in the field, INFOTEC conducted a workshop at headquarters in the last quarter of 2013 involving key IT staff from all regions. In addition, INFOTEC actively participated in the regional IT workshop for Latin America and the Caribbean. Building on these good initiatives, INFOTEC should consider participating in regional workshops on a regular basis to raise awareness of the need for IT practices to be strictly followed and enforced by regional and local office management.

#### *Oversight of implementing partners*

47. For effective programme delivery, particularly for implementing technical cooperation projects, the ILO enters into partnerships with non-governmental organizations as well as constituent-related entities in all countries where the ILO operates. Given the significant volumes disbursed on implementing partners and their importance to the ILO's interventions, robust controls are an essential element to ensure that the ILO's resources are deployed effectively and that the Organization receives value for money.
48. The number of audit findings related to implementing agents has reduced from four in 2012 to two in 2013. Nevertheless, the IAO found that controls over the monitoring of implementing agents' activities could be enhanced. The IAO recalls that the Office Procedure on implementation agreements<sup>3</sup> is a good first step towards setting policy guidance for working with implementing partners. However, more work is needed to reinforce the message to managers that although working with implementing partners is sometimes essential for capacity building, there are associated financial and operational risks which have to be prudently and diligently managed. In its response to the Report of the Chief Internal Auditor to the March 2013 session of the Governing Body,<sup>4</sup> the Office has indicated that it will continue to address this issue throughout the course of 2014.

#### ***Follow-up of internal audit recommendations***

##### **Follow-up audits**

49. In 2013, the IAO issued a follow-up audit report on the implementation status of the findings set out in the internal audit report for the ILO Office for Nigeria, Gambia, Ghana, Liberia and Sierra Leone in Abuja, issued in April 2011. The audit report in question

<sup>3</sup> Office Procedure No. 270 (Version 1), *Implementation agreements*, 6 Mar. 2012.

<sup>4</sup> GB.320/PFA/9.

contained 43 recommendations. During the follow-up audit, the IAO found that ILO Office in Abuja had fully implemented 30 (or 70 per cent) of the recommendations. Of the remaining 13 recommendations, six were partially implemented, three were in progress, two had not yet been started and two were no longer considered applicable. In the IAO's opinion, the high-risk recommendations requiring further implementation work included those relating to assessing staff training needs, staff performance monitoring, off-site data backups, business continuity planning, purchasing committee roles and responsibilities, management waivers, and submitting performance appraisals promptly.

#### Office implementation reports

50. The IAO's analysis of the implementation reports provided by the Treasurer and Financial Comptroller between August and October 2013, indicated that management has addressed all the IAO's recommendations for the offices audited, either by implementing the recommendations or by assessing them to be no longer applicable.
51. However, as noted during a follow-up audit in 2013, when reviewing the actions taken by management to implement the recommendations, the IAO found that a number of recommendations had not been fully implemented or, in the IAO's view, required further attention to fully address the issue raised. The IAO therefore reiterates its support for the Office of the Treasurer and Financial Comptroller to reinforce the message that senior managers must fully comply with the internal follow-up procedure on internal audit recommendations, and assume responsibility for ensuring that appropriate action is taken.

### **Summary of investigation results**

#### Investigation reports issued in 2013

52. In 2013, the IAO reported on six investigations, three of which related to allegations received in 2013. The remaining three related to allegations received in 2012. In addition, in two cases relating to allegations received in 2013, the Office confirmed that the allegations were substantiated without requiring an investigation by the IAO.
  - In one report, the IAO found that allegations against two staff members relating to falsified invoices for staff health insurance reimbursements were substantiated. The IAO is investigating similar allegations against three other individuals at the same location and will issue the corresponding reports in 2014.
  - Two reports related to implementing partners, one of which was substantiated.
  - In one report, the IAO found that allegations relating to recruitment irregularities and conflicts of interest were partially substantiated.
  - One report related to the theft of cash at an ILO field office. The investigation substantiated the allegation.
  - The IAO's sixth report, into alleged misconduct by an ILO staff member in a field office, including conflict of interest and failure to disclose financial information, was substantiated.

#### Allegations received

53. As at December 2013, the IAO has 16 open allegations to review, investigate if deemed necessary, and/or report on. A summary of the status of the 16 open allegations is as follows:
  - In six cases, preliminary assessments have been carried out, with full investigations planned and for which fieldwork commenced in 2013. The IAO plans to issue the corresponding reports in 2014.

- In three cases, the investigation fieldwork is completed and the reports shall be issued in 2014.
  - In one case, the allegations proved to be either unfounded or related to administrative/management matters rather than to fraud, the misuse of assets, or other irregular acts. The report for this investigation is being finalized.
  - Six cases are under review to determine whether a full investigation is merited.
54. From the investigation work undertaken in 2013, lessons learned from the analysis of the failing in internal control that either permitted the irregularity to occur, or for it to remain undetected for a considerable length of time, can be summarized as follows:
- control improvements for processing Staff Health Insurance Fund claims from field offices and safeguarding petty cash are necessary;
  - more stringent reviews of candidate applications are required to ensure that recruitment processes are as transparent as possible; and
  - all staff members should be reminded of the importance of preventing perceived conflicts of interest and reporting all such potential conflicts to their supervisors.
55. The IAO has made appropriate recommendations to address the above issues in its internal audit reports.

### ***External quality review***

56. As part of the continuing requirements for compliance with the IIA Standards,<sup>5</sup> the IAO commissioned qualified assessors to conduct an external quality assurance review of the IAO's activities. The review included an assessment of the extent to which the IAO is in compliance with the IIA Standards, and identified areas for improvement.
57. The results of the review indicated that the IAO is in general conformance with the standards; the highest of three categories. However, the review identified certain opportunities for the IAO to improve its internal work processes. The IAO is currently taking measures to implement the recommendations presented in the report of the external quality assurance review and will present progress reports to the Independent Oversight Advisory Committee as appropriate.

<sup>5</sup> See GB.289/PFA/7.

## Annex I

### List of internal audit reports issued in 2013

Index No.		Audit reference	Date issued
<b>ILO</b>			
1	IAO 2013 Risk Assessment and Audit Plan	IA 1-6 (2013)	15/01/2013
2	Report on the internal audit of the urgent renovation works and the governance structure of the Headquarters Renovation Project (2007–10)	IA 7-1 (2013)	15/02/2013
3	Report on the internal audit of the ILO Country Office for the Philippines in Manila	IA 5-46 (2013)	29/04/2013
4	Report on the internal audit of the ILO Decent Work Technical Support Team and Country Office for Central and Eastern Europe in Budapest	IA 5-88 (2013)	13/05/2013
5	Report on the internal audit of the use of IRIS by the ILO Decent Work Technical Support Team and Country Office for Central and Eastern Europe in Budapest	IA 5-88 IRIS(2013)	13/05/2013
6	Report on the internal audit of the Pension Unit and the Voluntary Thrift Benefit Fund	IAO/4/2013	02/07/2013
7	Report on the internal audit of the ILO Country Office for Madagascar, Comoros, Djibouti, Mauritius and Seychelles in Antananarivo	IA 5-10 (2013)	02/07/2013
8	Report on the internal audit of the “Haute Intensité de Main d’Œuvre (HIMO)” projects in Madagascar	IA 5-10A (2013)	09/07/2013
9	Follow-up on the internal audit report for the ILO Office for Nigeria, Gambia, Ghana, Liberia and Sierra Leone in Abuja, issued in April 2011	IAO/63/2013	18/07/2013
10	Report on the internal audit of the ILO Country Office for Zambia, Malawi and Mozambique in Lusaka	IA 5-7 (2012)	29/07/2013
11	Report on the internal audit of the ILO Country Office for Pakistan in Islamabad	IAO-74-2013	11/10/2013
12	Internal audit report of the ILO Country Office for Algeria, Libyan Arab Jamahiriya, Morocco and Tunisia in Algiers	IAO/72/2013	07/11/2013
<b>Turin Centre</b>			
1	Risk Assessment and 2013 Audit Plan	IA-TC/30 (2013)	27/03/2013
2	Report on the costing of the International Training Centre’s training programmes	IA-TC/41	22/10/2013
3	Internal audit report on the Oracle e-Business Application at the International Training Centre in Turin	IA-TC/42	29/10/2013
4	Report on the cost sharing of the Turin Centre’s campus incurred expenditure	IA-TC/43	12/06/2013



## **Annex II**

### **Summary of recommendations**

#### ***Summary of audit results***

1. The IAO's analysis of audit findings in 2013 by region and at headquarters and by significance is shown in figure 2. The IAO identified 70 (or 46 per cent) audit findings of high significance in 2013, which highlights that there is an opportunity to enhance the control environment at the entity level. In this regard, the IAO recommends that the Office should investigate ways to share the lessons learned from control issues identified during audits of the regional offices and headquarters departments, and communicate specific initiatives to implement recommendations during regional meetings. As appropriate, the IAO can work with management to take this recommendation forward.

#### ***Business continuity planning***

2. The IAO's field office audits in 2013 highlighted seven instances where business continuity plans were either incomplete or not formally finalized, or where staff were inadequately prepared to deal with emergency situations. Pending the completion of the phase of the project concerning field locations, the Office should encourage the Directors of those field offices susceptible to a high risk of natural disasters or civil unrest to develop, test and document basic business continuity plans to ensure that core functions and communications can be re-established with headquarters and external partners as required in the event that their office becomes inaccessible or key information system services are unavailable; for example, the Regional Office for Africa developed a basic business continuity box. In addition, field offices should communicate to the business continuity planning team at headquarters any lessons learned from having to manage a major event that had a severe impact on operations, to ensure that these lessons are considered in a timely manner for possible inclusion into the ILO's business continuity plan and shared with other ILO offices as appropriate.

#### ***Information technology***

3. As the ILO's highest level IT governance committee, the Information Technology Governance Committee (ITGC) has an essential role in developing strategy and establishing priorities for mobilizing information technology resources effectively; the IAO therefore suggests that the Secretary of the ITGC should prepare a meeting schedule and hold regular meetings as soon as is practical.

#### ***The Pension Unit and Voluntary Thrift Benefit Fund***

4. The IAO recommends that the Office should reassess the investment strategy in order to guide the managers of the Voluntary Thrift Benefit Fund in taking investment decisions, including by carrying out an assessment as to the future viability of the Fund and of what actions, if any, may need to be taken. The Pension Unit should also set investment objectives for the Fund and should periodically monitor its performance against the established objectives.

#### ***Project formulation and approval***

5. PARDEV informed the IAO that, as a result of the reform process, a new unit – the Development Cooperation Support Unit – had been established to facilitate quality control and communication when projects are in the inception stage, to reduce the risk of a

recurrence of the events in one field office that led to a project closing sooner than anticipated. To support this new unit, the IAO suggests that the process of project approval should be formalized in a workflow, include provisions for securing funding for the whole project lifetime, and be consolidated in a Procedure issued by the Office through the Internal Governance Document System.

### ***Payment of value added tax***

6. In September 2013, the Office issued a Procedure establishing the ILO policy for the accounting of VAT and the steps that should be taken to implement it. In order to facilitate communication of this policy to field office finance staff and managers, the IAO suggests that the Procedure should be included in the agenda of regional meetings of finance and administration staff to raise their awareness of its contents and the actions that need to be taken to secure VAT refunds when eligible.

### ***Authorized bank signatories***

7. The ILO's Treasury and Accounts Branch is currently investigating ways to streamline the ILO's banking structure, to reduce the reliance on local bank accounts. This would go some way towards minimizing the risk of bank signatory lists becoming obsolete. Until such times as this review has been completed, the IAO encourages the regional offices to continue with their annual exercise to review bank account signatories in field offices, to ensure that they are kept up to date and, more importantly, are valid.

### ***Performance cycle***

8. HRD has taken steps to ensure that the performance objectives of staff with managerial responsibilities include completing the performance cycle for staff under their responsibility, and is about to introduce a new web-based tool to support managers in monitoring completion of each component of the appraisal system. This presents a good opportunity for the line-management hierarchy in the regional offices to make use of the new tools to establish a system that enables regular monitoring of completion rates and thus makes it possible to actively follow-up with those offices that do not fully complete the performance cycle in a timely manner.

### ***External collaboration contracts***

9. Field offices should implement more stringent monitoring of all external collaboration contracts to ensure that all contracts with external collaborators are fully justified and supported with relevant documentation in accordance with the Office Directive on the subject. As necessary, regional offices should provide support to the field offices to ensure that they comply with the requirements of the Office Directive, to reduce financial, legal and reputational risk.

### ***Information technology in field offices***

10. In order to help reduce IT risks in the field, INFOTEC conducted a workshop at headquarters in the last quarter of 2013 involving key IT staff from all regions. In addition, INFOTEC actively participated in the regional IT workshop for Latin America and the Caribbean. Building on these good initiatives, INFOTEC should consider participating in regional workshops on a regular basis to raise awareness of the need for IT practices to be strictly followed and enforced by regional and local office management.