EIGHTH ITEM ON THE AGENDA

Report of the Chief Internal Auditor for the year ended 31 December 2014

Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2014

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 2014 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 2014.

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 (IAO) 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 2014

Introduction

1. The Office of Internal Audit and Oversight (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 the Governing Body approved 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, its mandate includes 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. As an investigation is a fact-finding process, the IAO does not make any recommendations for disciplinary action to be taken against individuals or third parties in its reports. However, all investigation reports contain an assessment of whether or not the allegations are substantiated based on evidence obtained during the investigation.

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 establish 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 2014.

Assurance audits

7. During 2014, the IAO issued nine ILO assurance audit reports and one follow-up report. Three assurance audit reports cover headquarters functions, and six relate to audits conducted at ILO field office locations (see annex I). The IAO has completed the fieldwork for a further seven audit assignments, which are at 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 2016. Figure 1 shows the number of assurance audit and follow-up reports issued in 2014 by geographical region and at headquarters.
Investigations

8. In 2014, the IAO received ten allegations. A breakdown of the status of these allegations as at 31 December 2014 is as follows:
   - one allegation was closed without requiring a full investigation;
   - the IAO completed investigations into four of the allegations and has reported its findings; and
   - five allegations remained open.

9. The IAO issued four investigation reports in 2014 relating to allegations received previously.

Other activities

10. The IAO continues to provide internal audit services for the International Training Centre (the Turin Centre) of the ILO in Turin, Italy. In 2014, the IAO issued two assurance audit reports for the Turin Centre covering its governance and training programmes. The summary results of internal audits are reported to the Turin Centre’s Board during its annual meeting.

11. In 2014, the IAO delivered five presentations and training sessions on anti-fraud awareness and prevention at ILO offices.

12. The IAO attended the meetings of the Steering Committee for the Headquarters Building Renovation Project and the IT Governance Committee as an observer, and participated in developing the outcome indicators for the ILO’s programme and budget paper on Effective and efficient governance of the Organization. In addition, the Chief Internal Auditor met with the Director-General on a regular basis, and attended a Senior Management Team and Global Management Team meeting.
13. The IAO also provided advisory services on two areas: the verification function; and the Communications and Files Section (DOSCOM). The IAO provided other ad hoc advice to management on request.

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

**Summary of audit results**

15. In the assurance audit reports issued in 2014, the IAO identified 106 audit findings and has assessed them to be of varying significance for the ILO, ranging from low to high importance. Overall, the IAO did not identify any major weaknesses in the ILO’s system of internal control except for one instance.

16. The headquarters review of application security and change management controls in the Integrated Resource Information System (IRIS) identified that owing to the manner in which the ORACLE e-Business suite stores passwords there was a risk that they could be compromised. Due to a number of other checks in the system, the probability of this occurring is low, but should the risk materialize it could have a major impact. The ILO took immediate corrective action once the issue was raised.

17. The IAO’s analysis of audit findings in 2014 by significance is shown in figure 2. The IAO identified 53 (or 50 per cent) audit findings of high significance in 2014, which highlights that continued attention is required to strengthen the control environment at the entity level.

18. Following the recommendation in the 2013 Chief Internal Auditor’s report to the Governing Body \(^1\) that there is scope to share lessons learned from internal audit recommendations, the Office in its response \(^2\) has revised the internal procedure on the follow-up of internal audit recommendations, reiterating the need for communication and implementation of internal audit recommendations region- or office-wide, as appropriate.

19. The IAO will also continue its outreach to promote awareness of common internal control issues identified during audits, as well as anti-fraud awareness, by offering to attend regional meetings of ILO colleagues.

**Risk management**

20. In previous Governing Body reports, the IAO has commented on the need to build on the areas that were already practising some form of risk management, and to establish an office-wide approach. The Office has responded positively to previous recommendations by issuing a risk management policy and holding training and awareness events, in which senior managers, among others, have participated. The IAO’s recommendations included establishing a full-time position of risk officer, and the IAO is pleased to note that the Office has now established such a position. The senior risk officer took up post in 2014, and is well advanced in the preparation of a more comprehensive Enterprise Risk Management Framework. This will help the Office take a more structured and considered approach to risk management in general and, in particular, when taking decisions in relation to high risk.

\(^1\) GB.320/PFA/10(Rev.).

\(^2\) GB.323/PFA/INF/3.
Headquarters audits

21. During 2014, the IAO issued three audit reports that covered the following topics: a centrally-managed technical cooperation project; application security and change management controls in IRIS; and the ILO’s publications process.

Improving decent work opportunities for youth through knowledge and action: Work4Youth

22. The audit highlighted a good practice whereby the project team implemented measures to meet the donor’s quarterly reporting requirements in a timely manner and took an active role in preparing and sending the reports to the donor, which streamlined the reporting process. The IAO suggests that the Office review the approach taken by Work4Youth (W4Y) to donor reporting and assess if this can be applied to other projects.

23. The IAO also noted that the project team recruited technical cooperation staff via open competition. The IAO is mindful of the importance of being able to recruit experienced project staff, at times at relatively short notice. Nevertheless, although not required by the ILO’s Staff Regulations, such competition does improve recruitment transparency.

Application security and change management controls in IRIS at ILO headquarters in Geneva

24. Overall, the audit found that application change management controls over the IRIS system are operating effectively and that there is a robust change control process to ensure that all IRIS application changes are subjected to a quality assurance process. However, the audit identified opportunities to strengthen controls when implementing security updates to prevent user passwords from being compromised. In particular, the manner in which the Oracle e-Business suite stores passwords could lead to unauthorized access. The risk of passwords being compromised was low, as other checks and balances existed, but the consequences of the risk materializing could be significant financially and/or operationally. The Office took immediate action to address the matter, as the IAO verified. The ILO’s Information and Technology Management Department (INFOTEC) subsequently informed the IAO that the initial cause of the issue was that the hosting provider had not correctly applied the relevant security update. Although there are challenges with applying the relevant patches, the Office should establish a system in consultation with the hosting provider to identify those security patches that are assessed as high priority, and thereafter ensure that the host provider has properly applied them.

25. In addition, the audit identified a number of other opportunities to improve controls, which may involve the need for additional resources to fully address the issues raised. These will have to be considered against current priorities, available resources and the ILO’s level of exposure. Nevertheless, the Office has indicated that corrective action to address many of the issues identified in the report has been taken or is under way.

The process of publications

26. ILO publications inform, guide and influence the thinking of constituents, donors, policy-makers and the wider public about the world of labour and the ILO’s activities. It is therefore important to have in place a robust publications process that meets the needs of the ILO and enhances its reputation through quality products.

27. The audit found that since the cessation of the Research and Publications Committee in 2012, there has been no single entity to oversee the ILO’s publications process. As a result, the current publishing process is somewhat fragmented. It is noteworthy, however, that the IAO’s review of the quality assurance process found that all high-profile publications sampled underwent proper quality reviews. Nevertheless, having a single entity with the
overall responsibility for the publishing process could help to ensure that the ILO’s publications meet the required standards and that they are aligned with the ILO’s strategic objectives, outcomes and areas of critical importance. Taking into account cost constraints, the Office should take steps to establish a more centralized system to provide oversight of the publications process.

28. In addition to a single entity with responsibility for the publishing process, given the differing types of media available, the Office should update its definition of “publications” in the context of the ILO and classify the different types of printed and non-printed publications that it uses to inform constituents and the wider public of the ILO’s objectives and activities.

29. The Office should also consider establishing a central repository for publications, or leveraging databases that are already in place which could serve such a purpose. Furthermore, physical stock levels of publications should be further reduced as this could help avoid unnecessary costs.

30. The IAO’s analysis indicated that available guidance and tools for publications were not used consistently at headquarters or at field offices. While many elements of the guidance and tools are useful, they need to be reviewed and adapted to reflect current publishing technology. Such a review will provide an opportunity to improve the publication process by automating work flows where possible.

Field audits

31. During 2014, the IAO issued six assurance audit reports for audit work conducted at ILO field offices in Bangladesh, Colombia, Côte d’Ivoire, Lesotho, Peru and Thailand. The IAO commented on certain positive aspects of the control environments at the locations audited with many of the offices having established internal controls to manage the risks assessed by the IAO as relevant to their operations. One office, however, requires a more detailed review of its financial, procurement and administrative internal controls. The findings from this office indicated that the regional office also needed to enhance its oversight to help detect and take early corrective action to address the matters identified. The regional office has arranged for its Chief of Regional Administrative Services to visit the office concerned to assist in addressing the issues raised.

32. The IAO has identified a number of high-significance issues relating to finance and human resources processes. The IAO also noted that, as in previous years, there is scope for improving internal controls with respect to reclaiming value added tax (VAT), the management of external collaborator contracts, and information technology. In addition, opportunities to improve controls over physical security at four locations and further opportunities to improve procurement controls were identified.

33. The IAO made recommendations to address its observations arising from its field audits in the respective internal audit reports, with the main findings detailed below.

34. The IAO has classified the issues identified during audits of field office locations in 2014 in figure 2 below.
Figure 2. Field audit findings by significance in 2014

Summary of main observation of field audits

Finance processes

35. Finance-related issues have the highest number of observations as it is one of the main areas of focus of any field internal audit, given the nature of activities and control systems in field locations.

Local VAT

36. Under the Convention on the Privileges and Immunities of the Specialized Agencies, the ILO is exempt from paying VAT in countries acceding to the Convention. VAT is a recurring issue identified during the IAO’s field audits and unless properly administered could lead to financial loss by the ILO. For example, at two locations the respective offices had not filed claims to request refunds of VAT over a number of years. The regional offices should identify those offices or projects that are eligible to obtain VAT refunds but do not, assess why the office/project is not submitting claims, and offer direct support and guidance to the responsible finance officer as necessary.

Monitoring of financial and administrative activities

37. Robust monitoring controls provide managers with a reasonable level of assurance that financial and administrative processes that support ILO activities are operating effectively and as intended, as well as reducing risk.

38. Application of IRIS in field locations has improved internal control by automating a number of processes. However, the IAO found that there was an opportunity to consider if the level of management information available could be improved by leveraging the use of IRIS. The IAO therefore suggests that the Office in consultation with the regional offices determine what its management information needs are and assess if reports are already available from IRIS to meet those needs. If there are any gaps, the Office should develop the required management reports, prioritizing as appropriate. This would not only improve
internal control but also bring efficiencies to the system by reducing the need for manually-based monitoring systems.

39. In one large project office, the administrative and finance personnel were obliged to manually track allocations, financial obligations and payments on a spreadsheet, due to the project office not having access to the IRIS system. As IRIS is rolled out to field offices, the Office should consider whether large-scale projects should be provided with the ability to enter data into IRIS. This could bring efficiencies to the process as well as improving local and regional monitoring.

40. At another location, the IAO found that weak financial and administrative procedures had led to the office incurring unnecessary expenditure on a yearly basis, resulting in financial loss to the ILO. The IAO concluded that there was a need for the office concerned to improve its system of internal control over financial and administrative operations, as well as for the regional office to improve its oversight of the concerned office (see also paragraph 52). The regional office will be sending its Chief of Regional Administrative Services to assist the office in taking the necessary steps to address the issues raised by the IAO.

**Human resources**

**Performance appraisals**

41. The IAO’s audits have indicated that improvements have occurred in compliance with the ILO’s Performance Management System. However, in one location, the IAO found that 30 per cent of staff members’ performance appraisals were overdue.

42. The Office has introduced a web-based application to assist officials in completing each stage of the performance cycle, automating the workflow. In November 2014, a report was made available to regional office human resource staff to facilitate monitoring of the performance cycle and follow up region wide. The report is also available to performance management focal points at country offices. The introduction of the web-based application and availability of the monitoring report should help facilitate continued improvement in compliance rates.

43. As performance management is an important part in helping the ILO deliver its objectives, the IAO will continue to include a review of compliance with the performance management system as part of its field audits.

**Business continuity planning**

44. The IAO’s field office audits showed that the number of issues of high significance that related to business continuity reduced from seven in 2013 to four in 2014.

45. In 2014, the IAO identified situations where business continuity plans were either incomplete, not approved or not adequately documented, or where staff members were inadequately prepared to deal with emergency situations. One of the issues relates to a regional office which had not received business continuity plans for approval from any of the field offices reporting to it within the deadline set by the headquarters coordinator.

46. The reduction in the number of issues noted during the IAO’s field audits is an indication that the work of the business continuity coordinator at headquarters is becoming effective in putting in place basic business continuity planning (BCP) measures at field duty stations as well as at headquarters. As at the end of 2014, all BCP “play-books” had been received by the coordinator. Moreover, the process of coordinating activities in the regions should be further strengthened with the appointment of the ILO’s senior risk officer, who took up post in September 2014. Nevertheless, the IAO’s observations noted above show that work remains to be undertaken to fully address the matter of business continuity at the ILO.
Security

47. The IAO identified three issues concerning project premises that did not fully comply with the United Nations Department of Safety and Security (UNDSS) Minimum Operating Security Standards (MOSS). Complying with MOSS reduces the security risk to ILO officials and assets especially in areas that may be prone to civil unrest or natural disasters.

48. The Office has provided oversight over field security issues for both established and project field offices. Project budgets normally include funds for security purposes, and appropriate measures should be taken at the local level to ensure an adequate level of security, based on the security risk assessment process recommendations. The Office is taking steps to further strengthen its oversight and management of security risks by establishing an integrated security unit to cover both headquarters and the field. The IAO encourages the Office to complete the required recruitment of staff so that the unit can continue to develop the work undertaken so far with regard to security in the field.

Information technology

49. The ILO relies increasingly on information technology to facilitate the delivery of ILO services to constituents around the world. This is underscored by the continued deployment of the ILO’s IRIS and an increased reliance on other business applications.

50. The IAO continued to identify issues related to back-up processes, off-site storage of ILO data, and physical access to IT infrastructure. However, INFOTEC’s initiative to centralize IT infrastructure and services to support field offices should reduce IT-related risks, and the IAO expects that there will be a substantial reduction in issues of this nature during future field audits.

Procurement

51. The IAO found three issues of high significance relating to the quality and regularity of supplier bids. In one case, an established supplier to a project office was tasked with soliciting bids for work for which the supplier also submitted bids that it won, resulting in a clear conflict of interest.

52. In the same office referred to in paragraph 40, the IAO found the office did not maintain sufficient documentation to justify the office’s selection of suppliers of goods and services concerning 24 contracts amounting to US$190,000. Moreover, during the period January 2010 to June 2012, a supplier which provided electrical services received payments from the office amounting to US$112,000 for various other types of services that appeared outside the scope of its advertised skill set. While the IAO found no evidence of fraud there was a need for the procurement process to be improved to demonstrate transparency in the selection of vendors and that the ILO had obtained value for money.

53. The Office has recently issued a procurement manual that is available to all officials on the ILO’s Intranet, which will provide guidance to officials with procurement responsibilities on how to apply the ILO’s established procurement processes. In order to support its implementation and further reduce procurement-related risks, the IAO suggests that the ILO’s Procurement Department, PROCUREMENT, continues with and, where resources permit, expands its targeted training for those offices and projects that undertake a high volume of procurement activities, as well as for those duty stations where rapid expansion of activities is anticipated (a good example of this is the recent training provided to ILO officials in Bangladesh).
Follow-up of internal audit recommendations

Follow-up audits

54. In 2014, the IAO issued a follow-up audit report on the implementation status of the findings in the internal audit of the ILO Country Office (CO) for Nepal in Kathmandu, issued in February 2012. The 2012 audit report on CO–Kathmandu contained 25 recommendations. During the follow-up audit, the IAO found that CO–Kathmandu had implemented 16 (or 64 per cent) of the recommendations. Of the remaining nine recommendations, six were partially implemented and three were in progress.

55. During the audit, the IAO made a further 13 recommendations, four of which addressed high-risk audit findings relating to implementing agents and nominating an officer in charge.

Office implementation reports

56. The IAO’s analysis of the summary implementation report provided by the Office of the Treasurer and Financial Comptroller (TR/CF) shows that all of the four assurance audit implementation reports due in 2014 were submitted. Three were submitted within the required deadline and one missed it by a month. This is an improvement compared to previous years.

Summary of investigation results

Investigation reports issued in 2014

57. In 2014, the IAO reported on eight investigations, including four which related to allegations received previously.

- In three reports, the IAO substantiated allegations of falsified invoices within local procurement and medical reimbursement.
- In one report, the IAO found that there had been irregular usage of the Office’s telecommunications resulting in a small loss (approximately US$300).
- In three reports, the IAO found that allegations of conflict of interest were partially substantiated.
- In the remaining report, the IAO confirmed that a staff member had acted negligently by allowing funds to be paid to a supplier who had not delivered the goods resulting in a loss of some US$8,000 to the ILO.

Allegations received

58. As at December 2014, the IAO has 14 open allegations to review, investigate if deemed necessary, and/or report on. A summary of the status of the open allegations is as follows:

- In four cases, preliminary assessments have been carried out, with full investigations planned. The IAO plans to issue the corresponding reports in 2015.
- In one case, the IAO has drafted an investigation report, which will be issued in 2015.
- In six cases, the investigation fieldwork is completed and the report will be issued in 2015.
- Three cases are under review to determine whether a full investigation is merited.

59. From the investigation reports submitted in 2014, lessons learned from the analysis of the failings in internal control that permitted the irregularity to occur can be summarized as follows:
- improvements in control over local procurement and the mechanisms for obtaining reimbursement of medical bills are necessary;
- all staff members should be reminded of the importance of preventing perceived conflicts of interest and reporting all such potential conflicts to their supervisors and the ethics officer in order to seek appropriate advice on managing the issue.
# Appendix I

## List of internal audit reports issued in 2014

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Appendix II

Summary of recommendations

**Work4Youth**

1. The IAO suggests that the Office review the approach taken by Work4Youth to donor reporting and assess if this can be applied to other projects (see paragraphs 22–23).

**Application security and change management controls in IRIS at ILO headquarters in Geneva**

2. The Office should establish a system in consultation with the hosting provider to identify those security patches that are assessed as high priority, and thereafter ensure that the host provider has properly applied them (see paragraph 24).

**The process of publications**

3. Taking into account cost constraints, the Office should take steps to establish a more centralized system to provide oversight of the publications process (see paragraph 27).

4. The Office should update its definition of “publications” in the context of the ILO and classify the different types of printed and non-printed publications that it uses to inform constituents and the wider public of the ILO’s objectives and activities (see paragraph 28).

5. The Office should also consider establishing a central repository for publications, or leveraging databases that are already in place which could serve such a purpose. Furthermore, physical stock levels of publications should be further reduced as this could help avoid unnecessary costs (see paragraph 29).

**Field audits**

6. The findings from one office indicated that the regional office concerned also needed to enhance its oversight to help detect and take early corrective action to address the matters identified (see paragraphs 31, 40 and 52).

**Local VAT**

7. The regional offices should identify those offices or projects that are eligible to obtain VAT refunds but do not, and assess why the office/project is not submitting claims, offering direct support and guidance to the responsible finance officer as necessary (see paragraph 36).

**Monitoring of financial and administrative activities**

8. The IAO therefore suggests that the Office in consultation with the regional offices determine what their management information needs are and assess if reports are already available from IRIS to meet those needs. If there are any gaps, the Office should develop the required management reports, prioritizing as appropriate (see paragraph 38).

9. The Office should consider if large-scale projects should be provided with the ability to enter data into IRIS (see paragraph 39).
Security

10. The IAO encourages the Office to complete the required recruitment of staff so that the security unit can continue to develop the work undertaken so far with regard to security in the field (see paragraph 48).

Procurement

11. The IAO suggests that the ILO’s Procurement Department, PROCUREMENT, continue with and, where resources permit, expand its targeted training for those offices and projects that undertake a high volume of procurement activities, as well as for those duty stations where rapid expansion of activities is anticipated (see paragraph 53).