



Governing Body

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Programme, Financial and Administrative Section

PFA

FOR INFORMATION

External audit plan

Summary: In this paper, the Director-General transmits to the Governing Body the External Auditor's summary of the annual audit plan for the year ending 31 December 2017, for information.

Author unit: Commission on Audit, Republic of the Philippines (External Auditor).

Related document: GB.329/PFA/INF/2.

Summary of the annual audit plan for the year ending 31 December 2017

Our mandate

1. The consolidated financial statements of the International Labour Organization (ILO) are subject to an annual audit in accordance with article 35 of the Financial Regulations of the International Labour Office. The Chairperson of the Commission on Audit, Republic of the Philippines, is the External Auditor of the ILO following appointment by the Governing Body, for a period of four years commencing on 1 April 2016, in accordance with Chapter IX of the Financial Regulations.

Overall audit objectives

2. Our overall audit objectives are:
 - to express an independent opinion as to whether:
 - the financial statements present fairly, in all material respects, the financial position of the ILO as at 31 December 2017, and the results of its financial performance, its cash flows and the comparisons of budget to actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS);
 - the financial statements have been prepared in accordance with the stated accounting policies;
 - the accounting principles have been applied on a basis consistent with that of the preceding financial period; and
 - the transactions that have come to our notice during the audit of the financial statements have, in all significant respects, been made in compliance with the Financial Regulations and legislative authority; and
 - to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and in general, the administration and management of the Organization (article 36 of the Financial Regulations).

Audit approach and methodology

3. In line with the requirements of the International Standards on Auditing, we will apply a risk-based approach in the audit of the ILO's financial statements and operational management.
4. The risk-based audit approach that will be adopted in the audit of the financial statements requires the conduct of risk assessments of material misstatements at the financial statement and assertion levels based on an appropriate understanding of the Organization and its environment including its internal controls.

5. In applying the audit approach and methodology, we primarily assess the risk maturity of the Organization by obtaining an overview of the extent to which the Governing Body and Management determine, assess, manage and monitor risks.
6. This is followed by a periodic audit planning exercise, identifying and prioritizing all those areas on which the stakeholders require objective assurance, including the risk management processes, the management of key risks, and the recording and reporting of risks, as well as assurance on the mitigation of individual or groups of risks.
7. The last phase of our audit methodology is the communication of the value delivered by our audit, which involves the discussion of the audit findings and conclusion with the Organization's Management for action thereon.

Risk perspectives and audit objectives

8. During our initial audit engagement, we identified a number of relevant factors and changes within the ILO operations that we consider as our initial audit trajectories. While our observations do not warrant the conclusion that risks indeed reside in several operational aspects of ILO management, we have planned to input this information into our interim audit work, our field audits and subsequently the year-end audit for 2017. These factors and changes are:
 - **Financial reporting and critical processes.** The risk perspectives will include: completeness of financial information; judgements and estimates; cut-off procedures; consolidation; capitalization; disclosures; and IPSAS updates. The audit objective is to obtain reasonable assurance that the financial statements are free of material misstatements and are fairly presented with adequate disclosures.
 - **Procurement management.** The risk perspectives will include: control mechanisms; compliance with applicable regulations and rules; and information systems for procurement management. The audit objective is to obtain reasonable assurance that the ILO's procurement activities and policies are delivered in a professional, correct, fair, timely and transparent manner with consideration placed on the value these add to the Organization in the achievement of its objectives.
 - **Travel management.** The risk perspectives will include: the travel framework; travel service delivery; and the travel information system. The audit objective is to ascertain the efficiency of travel management processes with a focus on travel process effectiveness and value for money, while maintaining the internal controls required to address operational risks.
 - **Development cooperation and Decent Work Country Programmes - implementation, monitoring and reporting.** The risk perspectives will include: implementation; monitoring; and reporting. The audit objective is to provide assurance as to whether there are adequate and functioning strategy and policy frameworks and effective controls on the implementation, monitoring and reporting of programme and project outcomes and results, as well as effective communication arrangements for the escalation of project outcomes and results from country offices to regional offices to headquarters.

Audit materiality

9. Our audit requires us to determine a specific amount of materiality for each engagement. This amount is also used to evaluate the significance of any uncorrected misstatements (past adjustments and reclassifications) noted during the audit.
10. We have set our preliminary materiality at approximately 2 per cent of average total expenses of the ILO from the last two bienniums, or US\$14.7 million.
11. We considered the following factors in establishing materiality: the needs of the Organization, other contributors, representatives of governments, employers and workers, and other multilateral agencies. This is consistent with the materiality level used for the 2016 financial statement audit. However, the quantitative measure of materiality is not the only factor considered in evaluating misstatements. Relatively small misstatements may have material effect on the financial statements because of qualitative considerations.

Our deliverables

12. At the conclusion of the audit, we will provide the following reports to the Governing Body:
 - **Independent Auditor's report.** This is a signed opinion on the financial statements as at 31 December 2017.
 - **Report of the External Auditor to the Governing Body.** This will contain any significant findings with respect to the efficiency of the financial procedures, the accounting system, financial controls and, in general, the administration and management of the ILO, and all matters referred to in Chapter IX, article 36, of the Financial Regulations. We will provide an update on prior years' observations and the implementation of recommendations. It will also contain the current year's observations and recommendations.
13. In addition, we will provide Management with the following reports during the course of our audit:
 - **Management letter.** A derivative communication that identifies opportunities for changes in procedures that in our view would improve systems of internal control, streamline operations, and/or enhance financial reporting practices.
 - **Audit observation memorandums.** Written communications to the staff concerned informing them of any deficiencies observed in the audit of accounts, operations or transactions.

Planned field works for 2017

14. In line with our risk-based audit methodology, our planned works for the 2017 audit will consist of the following activities:

Offices to be visited	Audit areas/activities
ILO headquarters interim audit	<p>Financial audit: Review compliance with the accounting and reporting processes pertaining to all accounts in the financial statements; perform substantive testing covering the period from January to August 2017.</p> <p>Operations audit: Review of procurement and travel management.</p>
ILO Regional Office for Africa DWT/CO–Pretoria CO–Addis Ababa	<p>Operations audit: Review of procurement and travel management; programme management – implementation, monitoring and reporting; operations control.</p>
ILO headquarters year-end audit	<p>Year-end financial audit: Review compliance with the accounting and reporting processes pertaining to Statements I–V of the consolidated financial statements and their disclosures with the end view of expressing an audit opinion on the financial statements taken as a whole; test of balances and substantive testing of transactions for 2017; follow-up of previous external audit recommendations.</p> <p>Operations audit: Programme management – monitoring and reporting at headquarters.</p>

15. As the ILO’s External Auditor, we also expect to perform a limited number of project audits based on requests received from ILO extra-budgetary donors. Separate terms of engagement will be prepared for any such requests.

Audit management

16. The management of our audits is based on our established operating philosophy of aligning our audit process more closely with the needs of our international clients, to improve their governance and provide the users of their financial statements with a higher level of assurance that our clients’ processes are effective as to their design and operation.
17. Effective staffing strategies are adopted in the deployment of the auditors that include effective skills mixing, bespoke technical training and adequate support mechanisms. In adherence to the International Standards on Auditing, our audits undergo a three-level review to ensure audit quality.

Geneva, 17 January 2018

Commission on Audit,
Republic of the Philippines