



Governing Body

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External audit plan

Summary: In this document, the Director-General transmits to the Governing Body the External Auditor's summary of the annual audit plan for the year ending 31 December 2021, for information.

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Related documents: [GB.341/PFA/INF/4](#).

▶ Summary of the annual audit plan for the year ending 31 December 2021

Our mandate

1. The consolidated financial statements of the International Labour Organization (ILO) are subject to an annual audit in accordance with Chapter IX of the Financial Regulations of the International Labour Office. The Chairperson of the Commission on Audit of the Republic of the Philippines is the External Auditor of the ILO, as appointed by the Governing Body in accordance with article 35 of the Financial Regulations, for a term of four years commencing on 1 April 2016, covering the 75th and 76th financial periods. ¹ This mandate was subsequently renewed for an additional term of four years from 1 April 2020, covering the 77th and 78th financial periods. ²

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 2021, 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 the 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;
 - 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.
 - 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 continue to apply a risk-based approach in the audit of the ILO's financial statements and operational management.
4. The risk-based approach adopted in the audit of the financial statements requires the conduct of risk assessments of material misstatements at the financial statement and assertion levels

¹ GB.323/PFA/6.

² GB.334/PFA/9.

based on an appropriate understanding of the Organization and its environment, including its internal control.

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 ILO 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 ILO management for action thereon.
8. Moreover, the nature and extent of any work done by the ILO's Office of Internal Audit and Oversight and any external review body has been considered in establishing the scope and objectives for our audit plan. The health crisis (COVID-19 pandemic) has forced us to adapt and implement a remote audit approach for the continuity of the performance of our mandate. Necessary arrangements will be made with the ILO to facilitate remote auditing in the interim and even in the year-end audits if performing an on-site audit is still not feasible.

Risk perspectives and audit objectives

9. During our previous audit engagements and owing to the impact of the global COVID-19 pandemic, we identified a number of relevant factors and changes within the ILO operations that we considered in our audit trajectories. We have planned to input this information into the current year of our audit mandate, which will focus on the following topics:

- **Financial audit: Audit of financial statements and review of compliance with standards and regulations.** The financial statements of the ILO are prepared in accordance with IPSAS and the Financial Regulations. The risk perspectives will include: accounting and reporting controls in view of the full implementation of the Integrated Resource Information System (IRIS); completeness of financial information; judgements and estimates; cut-off procedures; accuracy in the reflection and valuation of assets and liabilities; disclosures; compliance with regulations; and IPSAS updates.

The audit objective is to form and issue an independent audit opinion on the financial statements of the ILO through the examination of evidence supporting the amounts and disclosures in the financial statements, which includes the assessment of the accounting principles used and significant estimates made, as well as the overall presentation of the financial statements. It also aims to ascertain the efficiency and effectiveness of the design and operation of accounting and reporting controls supporting the implementation of IRIS.

- **Operations audit: Review of programme and project implementation and delivery of outcome 6 of the ILO's Programme and Budget for the biennium 2020–21 (Gender equality and equal opportunities and treatment for all in the world of work) and outcome 7 (Adequate and effective protection at work for all).** Among the eight policy outcomes of the ILO's Programme and Budget for the biennium 2020–21, outcomes 6 and 7 are timely and relevant, especially in the current global business environment resulting from the COVID-19 pandemic and the global economic crisis. The risk perspectives concerning these two outcomes were divided into four categories: policy, strategy and framework;

monitoring and reporting; achievement and delivery of outlined targets under the outcomes; and the associated resources.

The audit objective is therefore to ascertain that: strategic arrangements relating to programme implementation for outcomes 6 and 7 are supported by appropriate and adequate cross-cutting policies, strategies and frameworks to respond to the pandemic; monitoring and reporting controls are adequate and efficient enough to support operational mandates that are aligned to the ILO Centenary Declaration for the Future of Work, while responding to the current health crisis and post-pandemic business environment, thereby achieving the desired outcome and intended results; targeted outputs and budgetary performance for outcomes 6 and 7 are achieved in alignment with the programme and budget and work plans; and both human and financial resources are adequate, available and utilized.

- **Audits of field offices: Audits of the ILO Decent Work Technical Support Team and Country Office for Eastern Europe and Central Asia (DWT/CO-Moscow), the ILO Country Office for Viet Nam (CO-Hanoi), the ILO Decent Work Technical Support Team for South Asia and Country Office for India (DWT/CO-New Delhi), and the ILO Decent Work Technical Support Team and Country Office for the South Cone of Latin America (DWT/CO-Santiago).** The operations of field offices are embedded in the financial statements on which we render an opinion. As such, it is imperative for us to review and assess the adequacy and effectiveness of their governance, risk management and internal controls. For the financial year 2021, we selected DWT/CO Moscow and CO-Hanoi for an interim audit and DWT/CO-New Delhi and DWT/CO-Santiago for a year-end audit. The risk perspectives will include: accountability, risk management and internal controls; accounting and reporting controls; and compliance.

The key objective of the audits of field offices is to ascertain the effectiveness of governance mechanisms (accountability, risk management and internal controls) as well as the accuracy and completeness of financial and management information, including the adequacy, efficiency and effectiveness of controls embedded within the key and critical business processes in the general management of the offices and in the implementation of their programmes and projects. Moreover, the audits aim to determine whether processed transactions complied with the ILO policies, regulations, rules and procedures and legislative authority and to assess the resulting information from these processes through the performance of test of key controls and details of transactions.

Audit materiality

10. 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.
11. We have set our overall materiality at approximately 2 per cent of the average total expenses of the ILO for the last five years, or US\$14.9 million.
12. We considered the following factors in establishing materiality: the needs of the Organization; and the needs of other contributors, representatives of governments, employers and workers and other multilateral agencies. This is consistent with the materiality level used for the 2020 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

13. 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 2021.
 - **Report of the External Auditor to the Governing Body.** This will contain the significant findings 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 ILO, and all matters referred to in Chapter IX, article 36, of the Financial Regulations. In it, 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.
14. In addition, we will provide management with the following reports during the course of our audit:
- **Management letters.** These are derivative communications that identify opportunities for changes in procedures that, in our view, would improve systems of internal control, streamline operations or enhance financial reporting practices.
 - **Audit observation memoranda.** These are written communications to the officials concerned, informing them of any perceived deficiencies observed in the audit of accounts, operations or transactions.

Planned field work for the 2021 audit

15. In line with our risk-based audit methodology, our planned work for the 2021 audit will consist of the activities described in the table below.

Offices to be visited	Audit areas/activities
<i>Interim audit (November 2021)</i>	
ILO headquarters (audit conducted remotely)	<p>Interim financial audit: Review of compliance with the accounting and reporting processes pertaining to all accounts that constitute the financial statements; perform substantive testing covering the period from January to September 2021.</p> <p>Operations audit: Preliminary review of programme/project implementation and delivery of outcomes 6 and 7, including process review, securing pertinent documents, making queries and other necessary actions.</p>
DWT/CO-Moscow CO-Hanoi (audit conducted remotely)	<p>Operations audit: General review of governance, accountability, the control environment and risk management in the offices; review of key management controls with a focus on programmes and projects related to outcomes 6 and 7, human resources management, travel, donor reporting, asset and inventory management, procurement, letters of agreement and other key risk areas identified by the audit team.</p>

Offices to be visited	Audit areas/activities
<i>Year-end audit (March–April 2022)</i>	
ILO headquarters (on-site audit to be conducted if warranted)	Year-end financial audit: Review of 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 test of transactions for 2021; review of compliance with new standards and follow-up of previous external audit recommendations. Operations audit: Continuation of review of programme/project implementation and delivery of outcomes 6 and 7; review, evaluation and validation of the preliminary audit work.
DWT/CO-New Delhi DWT/CO-Santiago (on-site audit to be conducted if warranted)	Operations audit: General review of governance, accountability, the control environment and risk management in the offices; review of key management controls with a focus on programmes and projects related to outcomes 6 and 7, human resources management, travel, donor reporting, asset and inventory management, procurement, letters of agreement and other key risk areas identified by the audit team.

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

Audit management

- 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 client's processes are effective as to their design and operation.
- Effective staffing strategies are adopted in the deployment of the auditors that include effective skills mixing, bespoke technical training and adequate support mechanisms. In compliance with the International Standards on Auditing, our audits undergo a three-level review to ensure audit quality.

Commission on Audit,
 Republic of the Philippines