



FOR INFORMATION

FIFTH ITEM ON THE AGENDA

Follow-up to the report of the External Auditor on the accounts for 2004–05

1. At the 296th Session (June 2006) of the Governing Body, the Committee considered the report of the External Auditor on the accounts of the 2004–05 financial period which included recommendations and observations relating to the implementation of the Integrated Resource Information System (IRIS), governance arrangements, external collaborators and short-term contracts. Under financial matters, it also included recommendations on bank account reconciliations, reconciliation of field accounting records to those at headquarters, verification of expenditure, suspense accounts and staff advances. The follow-up undertaken by the Office on the recommendations is provided, for information, in the appendix.
2. The Director-General will continue to work in close liaison with the External Auditor with regard to follow-up on his recommendations, as he attaches great importance to them and wishes to derive full benefit for the Organization from the work performed by the External Auditor.

Geneva, 29 January 2007.

Submitted for information.

Appendix

Action taken in response to the recommendations made in the External Auditor's report on the 2004–05 accounts

| Recommendation | Response from ILO management |
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| <i>Implementation of the Integrated Resource Information System (IRIS)</i> | |
| <p>Recommendation 1: We recommend that the ILO ensures that effective governance arrangements are in place at the start of all major projects, and that these provide for independent assessments. We further recommend that, for all future IT projects, the Information and Communications Technology Subcommittee (ICTS) of the Programme, Financial and Administrative Committee (PFAC) consider reviewing and monitoring project progress against clear plans and milestones.</p> | <p>The Office recognizes the importance of effective governance of such projects. During Project IRIS, two external evaluations of the project were conducted. Future projects will have the appropriate governance arrangements, including external evaluations.</p> <p>The ILO is committed to providing the ICTS with any requested documentation to facilitate review and monitoring of project progress. An additional session of the ICTS will be held in March 2007 to provide further detail on current IT projects and initiatives.</p> |
| <p>Recommendation 2: We recommend that the ILO ensures that the full costs are realistically forecast at the outset of a project, with an analysis of ongoing maintenance and upgrading; and that a more detailed cost analysis is provided to the ICTS of the PFAC.</p> | <p>A comprehensive cost analysis has been provided to the ICTS with a breakdown of ongoing maintenance and upgrading of hardware, software and licences to the ICTS. Other indirect costs, such as support and training, have been integrated and absorbed by departments and business units and are part of ongoing operating costs. The experience obtained from the implementation of IRIS will assist the Office in forecasting full costs of any future projects.</p> |
| <p>Recommendation 3: We recommend that, as a matter of good management practice, future IT projects should include implementation criteria, and formal procedures for system approval by the users and by senior management.</p> | <p>As part of the current IT Governance Project to fully implement both the Control Objectives for Information and related Technology (COBIT) and the Information Technology Infrastructure Library (ITIL) frameworks, future IT projects will comply with accepted industry standards and best practices. The overall governance and methodology inherent in these standards includes the development of implementation criteria and documented procedures for executing and obtaining formal approval of developed solutions.</p> |
| <p>Recommendation 4: We recommend that greater attention be paid to assessing the adequacy of parallel running and user acceptance testing prior to implementation.</p> | <p>User acceptance testing is part of any formal test strategy and plan. In order to fully accept the implemented solution, documented test scenarios and detailed test scripts are executed and validated by key users against expected results to ensure business requirements are fully met. This is an iterative process and is complete when approval is given by the business process owners that the solution works as expected. The Office has implemented a release and software change management strategy making use of automated tools based on approval work flows to ensure compliance to defined procedures. Developed solutions are only implemented in the production environment after formal sign-off by business process owners certifying that results from parallel production runs and user acceptance tests were successful.</p> |
| <p>Recommendation 5: We recommend that the ILO should evaluate its approach to the training and development of IRIS users to ensure that user needs are met and that sufficient resources are made available to fulfil this need.</p> | <p>The Office is taking a more holistic approach towards training, to include underlying business rules, regulations, policies and procedures. As a result, the training curriculum, materials and delivery mechanisms are being revised to fit with the new training strategy, under the direction of the Human Resources Development Department (HRD).</p> <p>The training needs input has been collected from a number of sources, including the Users' Forum, Help Desk data, the Fund Control Officers (FCO) Forum, as well as direct solicitation from the users. Based on this information, a series of modified training courses have already been organized and delivered to both new users (first-time training) and existing users (ongoing training).</p> |

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| | <p>Training materials, curriculum and delivery will be periodically reviewed and adjusted to reflect any changes to business processes, procedures and policies, as well as the streamlining and refinement of business processes, in order to achieve efficiency and effectiveness Office-wide.</p> <p>Resources have been reserved both centrally and in the regions and sectors to ensure that IRIS training can be delivered to all concerned.</p> |
| <p>Recommendation 6: We recommend that the ILO continues to ensure that adequate system support and knowledge transfer mechanisms are in place for future IT projects.</p> | <p>All end-user support for IRIS is provided by ILO staff. Only specific technical tasks are outsourced.</p> <p>For all IT-related technical tasks where external resources are used, requests for proposals and contracts include, in the terms of reference, both training and transition of knowledge as key requirements. This better equips the Office to more rapidly take ownership of implemented solutions and provide more cost effective and value added support in both the long and short term.</p> |
| <p>Recommendation 7: We recommend that the ILO obtains standard assurance reports on the system control environment as an integral part of the service level agreement with the external IRIS infrastructure provider.</p> | <p>The Office is currently in discussions with the external IRIS infrastructure provider to obtain the required independent assurance reports. Since several different formats of report are available from the provider, at different costs, the Office is evaluating which report would best meet the needs of the Office and at what cost.</p> |
| <p>Recommendation 8: We recommend that the ILO develops and implements an accepted good practice methodology for software development and control, for example, as offered by COBIT.</p> | <p>The ILO sent out a request for quotations for implementation of IT Governance in May 2006 based on the adoption of COBIT using the ITIL framework. The vendor was selected in August 2006 and the implementation started in September 2006. Gap analysis of current IT processes against desired targets is complete. Scoping and design of the future state of IT Governance is also complete and detailed process analysis is currently under way. The automation and deployment of both incident and service desk management have been identified as high priority processes and are targeted for completion by March 2007.</p> |
| <p>Recommendation 9: We recommend that the ILO establishes formal IT security policies to cover IRIS, including a structured and comprehensive business continuity and disaster recovery plan.</p> | <p>A new position has been created for a dedicated security officer within the Information and Technology Bureau (ITCOM). This dedicated resource will assist the Office in implementing a sound, viable and updated security policy consistently throughout the Office and across all IT systems.</p> <p>For IRIS, business continuity and disaster recovery plans are already in place with fully redundant infrastructure components (servers, database, network, software, power sources, data centres, etc.). The current IRIS service level agreement guarantees full recovery of IRIS within four hours from any disaster with a potential data loss of no more than 20 minutes.</p> <p>The implementation of secure remote access to IRIS will allow users to access IRIS from any location that has access to the public Internet, including home. This solution supports business continuity in the event of a catastrophe which could prevent ILO staff from working at ILO premises.</p> <p>In order to better support business continuity and disaster recovery for other essential services such as e-mail and file services, the hosting site for back-up of these services is being moved to the ICC. The configuration of the back-up site at the ICC is currently in progress with an expected completion date in March 2007. Other services will be transitioned to ICC as necessary after March 2007.</p> |
| <p>Recommendation 10: We recommend that management seek independent assurance on the effectiveness of the new internal control framework and systems within IRIS.</p> | <p>The internal controls in and around IRIS have been constantly reviewed and revised as the system has been used and developed over the past two years. Management has taken active steps to address areas that might be of concern, with new controls, alerts and procedures to mitigate risks.</p> <p>As part of the internal audit needs assessment and risk analysis, the IAO have confirmed the importance of an internal control framework review and included this in their strategic workplan as an item that should be subject to internal audit review each biennium.</p> |

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| <p>Recommendation 11: We recommend that the ILO should undertake a formal and objective post implementation review of project management and the achievement of the project's objectives.</p> | <p>The Office determined that, in relation to IRIS, a formal post-implementation review would not be beneficial at this point in time. During the Governing Body session in November 2006, a paper highlighting lessons learned was prepared for the ICTS. This paper provided a "self-assessment" of key implementation and management activities, including change management, training and support, governance and management, and resources and costs. In relation to other ongoing projects, such as the expanded use of IRIS in the field offices, the ILO plans to conduct formal post-implementation reviews.</p> |
| <p>Recommendation 12: We recommend that the ILO undertakes a business process review to maximize improvements in control and efficiency which should flow from IRIS and to inform training needs.</p> | <p>A number of initiatives have taken place to identify inefficiencies in IRIS controls and processes. As part of the upgrade of IRIS in 2007, including a redesign of the travel process, a comprehensive business process review is being conducted by the Office. This process review will follow the method of consultations with headquarters and future field users of IRIS that has been successfully followed for all major process improvements since IRIS went live at headquarters in March 2005.</p> <p>Additionally, a significant number of event-triggered "alerts" have been coded in IRIS to inform financial and system administrators of potential control and access violations which go against existing security policies and practices.</p> <p>A two-day workshop was held in November 2006 with all business process owners and key users to discuss how processes could be improved with the implementation of Office-wide shared service centres. Discussions are currently in progress to determine the viability of this model at the ILO and the type of governance required to implement it.</p> |
| <p><i>Review of the ILO's governance arrangements</i></p> | |
| <p>Recommendation 13: To reflect best practice in modern governance arrangements, we recommend that the Governing Body establish an independent audit oversight committee of experts to provide advice to the Director-General and the Governing Body on the effectiveness of internal control, financial management and reporting, and internal and external audit outputs.</p> | <p>Following a review of the practices elsewhere in the United Nations system, draft terms of reference have been discussed with the External Auditor, the Vice-Chairpersons of the PFAC and a number of governments. At its current session, the Committee has before it a document proposing the establishment of an Independent Oversight Advisory Committee (GB.298/PFA/8).</p> |
| <p>Recommendation 14: To improve the quality of the ILO's governance, we recommend that management introduce a systematic approach to risk management at strategic level.</p> | <p>An initial register of risks has been established following a joint review conducted by the IAO and FINANCE. Since risk management should include operational areas, during 2007 technical departments and external offices will be requested to provide inputs to this register.</p> <p>In addition, the Office is collaborating with other UN agencies on a joint exercise to identify and manage operational, environmental, political and strategic risks.</p> |
| <p>Recommendation 15: We recommend that the ILO adopt International Public Sector Accounting Standards (IPSAS) as the basis for the preparation of annually audited financial statements. We would encourage the ILO to provide an assessment of the required changes to the Financial Regulations which would result from the adoption of IPSAS, with a timetable for implementation.</p> | <p>At its 297th Session (November 2006), the Governing Body formally approved the recommendation to adopt IPSAS for financial reporting of the activities of the Organization. The Office continues to work closely with the United Nations and its specialized agencies on the interpretation of these standards and the determination of their impact on the ILO's Financial Regulations, rules, policies and practices. Work is on schedule to ensure that the planned implementation date of 1 January 2010 will be achieved.</p> |
| <p>Recommendation 16: We recommend that the ILO finalize procedures for establishing a central record of annual declarations of financial interests of staff members and their immediate families; and establish a central register of the receipt of gifts or hospitality.</p> | <p>A number of measures have been introduced by the Office. As one of the measures relating to ethical standards in the Office, all officials are now required to disclose, on an annual basis, any activities or links that could impact their independence or affect the reputation of the Office. In addition, a specific disclosure requirement has been introduced for officials of the Procurement Bureau. A broader report of financial interests is under development and is targeted for implementation by the end of the first quarter of 2007.</p> |

Recommendation

Response from ILO management

Internal audit

Recommendation 17: We recommend that consideration be given to ensuring closer liaison between the evaluation and internal audit functions.

The IAO and the Evaluation Unit now meet on a periodic basis to ensure closer cooperation between the two departments in the particular areas of work planning, sharing information and knowledge concerning risk areas to the Office and possibilities of joint assignments.

Recommendation 18: We recommend that the IAO communicate to the Director-General a comprehensive assessment of audit needs to identify the level of skills and resources to deliver an effective and comprehensive audit programme. We also recommend that the IAO consider the need for, and acquisition of, an increased level of specialist IT audit skills to support the audit of internal controls, particularly in relation to IRIS.

The IAO has completed this exercise and submitted the Audit Needs Assessment to the Director-General on 5 December 2006 for his consideration. The Audit Needs Assessment sets out a strategic framework to deliver an effective and comprehensive audit programme to provide the Director-General with the necessary assurance on the ILO control environment.

The Director-General's proposed Programme and Budget for 2008–09 includes a real increase of US\$575,000 as an initial step towards strengthening this Office.

Recommendation 19: We recommend that a more comprehensive risk-based audit plan is produced for each biennium and that this is formally accepted or approved by the Director-General to confirm his satisfaction on the level of internal audit assurance being delivered.

As part of the Audit Needs Assessment, the IAO undertook a risk-assessment exercise to rank auditable areas into high, medium or low risk. The IAO shall use the risk assessment as the basis to finalize its 2007 plan and programme of work, and inform the priority in which audits shall be undertaken. Once the plan is finalized, the IAO shall submit it to the Director-General for his review and approval.

Recommendation 20: We recommend that the IAO take forward the planned independent quality assurance review and consider any emerging recommendations for improvement.

The IAO has conducted preliminary work on this matter and has identified a pool of accredited quality assurance assessors able to undertake the review, sought information to estimate the cost of the exercise and earmarked an appropriate level of funding. A competitive bidding procurement process will be undertaken in the coming months with the stated objective of completing the quality assurance review before the end of 2007.

External collaborator and short-term contracts

Recommendation 21: We recommend that the HRD unit should be more active in ensuring adherence to current rules and regulations on the use of external collaborator and short-term contracts throughout the Organization. HRD should also consider re-issuing guidance on the use of these contracts, and ensure that any exceptions are critically reviewed and endorsed by senior management.

HRD began a series of briefing sessions for line managers and FCOs on 8 December 2006 to provide guidance on the appropriate use of external collaboration contracts, to highlight the risks and consequences to the Office of inappropriate use and to brief them on measures that will be taken to ensure compliance with existing rules and regulations. While the emphasis will be on self-policing, spot checks will be undertaken to identify managers who persistently disregard the rules and regulations. Adherence to such rules and regulations will be an element included in the accountability framework that will be part of the revised staff performance management system. IRIS has the functionality to flag cases that require managers to obtain special approval. HRD is also revising the circular governing the use of external collaborator contracts and it is anticipated that this will be finalized and issued by the end of March 2007.

Recommendation 22: We recommend that the ILO consider whether there could be benefits in reduced administrative costs from the use of alternative contracting arrangements, such as outsourcing or call-off contracts, to cater for staff – typically translators – who are frequently engaged for short periods of time.

The Office extensively outsources specialist work such as translation and interpretation. In order to reduce reliance on individuals, the Office has been experimenting with the use of commercial providers for these types of work. Experience shows that to be successful with the use of commercial providers, the Office would need to move more towards a longer term commercial arrangement developing a partnership approach where the personnel subcontracted are identified and monitored and the senior professionals of the company can be trained in ILO terminology, layout, etc. The Office is also consulting with other international organizations as to their practices and experience with different types of contractual relationships. Some organizations, for example, are testing a system with respect to translators under which individuals are contracted for a period of time with a guaranteed number of words each month. These organizations have reported that they are generally satisfied with this system of call-off contracts.

| Recommendation | Response from ILO management |
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| Recommendation 23: We recommend that the ILO should establish consistent criteria for evaluating the performance of external collaborators. | <p>The Office will continue to evaluate the experiences of other organizations and to experiment with different contracting arrangements in an effort to seek greater efficiency and cost reductions.</p> <p>The Office is in consultations with the External Auditor on best practices used by international organizations. It is anticipated that guidelines will be completed in the first half of 2007.</p> |
| Recommendation 24: We recommend that the ILO takes a more strategic approach to ensure that the outputs of external collaborator work are shared more widely to maximize their benefits and to avoid duplication of activities. | <p>This is being developed within the overall framework of knowledge management in the Office, working with ITCOM to establish appropriate tools and with departments/units in headquarters and the field to encourage compliance.</p> |
| Recommendation 25: We recommend that the ILO takes steps to ensure that established procedures are followed in relation to the engagement and payment of external collaborator services, and that payments in advance of services rendered are avoided. | <p>The revised external collaborator process developed in IRIS automatically initiates system alerts for CABINET, HRD and FINANCE when there is a possible departure from existing rules and procedures to allow for the necessary action to be taken. The new process also requires that the agreed terms of reference, including an established payment schedule, are included within the system as a prerequisite for the payment for any services delivered. This is verified at the time of payment to the contractor.</p> <p>The Office will address the need for compliance with all established procedures in the revised circular governing the use of external collaborator contracts. It is also being stressed in the briefing sessions for managers and FCOs mentioned above.</p> |
| Recommendation 26: We recommend that the ILO consider the establishment of a database of external collaborator evaluations, to identify high-quality work and to increase the possibility of encouraging competition to ensure that best value is achieved. | <p>As part of the work on knowledge management mentioned above (see recommendation 24), the Office will create a database on external collaborator evaluations.</p> |
| Recommendation 27: We recommend that the ILO investigate the potential use of IRIS in providing an effective monitoring control through standard exception reporting. | <p>System alerts have been implemented to provide additional controls in many of the processes that are used in IRIS. As specific needs are identified, specific requests for information are defined for particular areas of concern and, if needed, further reports are developed.</p> <p>As an example, the Office has already begun using IRIS to monitor the appropriate use of external collaborator contracts in headquarters to control for parameters such as the number of days worked, age of the consultant and the existence of concurrent contracts.</p> |
| Financial matters | |
| Recommendation 28: We recommend that the ILO ensure regular and timely reconciliation of all bank accounts and that these should be subject to evidenced review by an appropriate level of management. | <p>From the beginning of 2006, all ILO bank accounts have been reconciled on a monthly basis and these reconciliations have been reviewed and signed off by the head of the section responsible for bank reconciliations.</p> |
| Recommendation 29: We recommend that management develop an appropriate procedure to enable field offices to reconcile local accounting records to the main general ledger. | <p>The FMS application of the FISEXT system, used by external offices to record and transfer to headquarters accounting information, stores historical records of the current year plus those of the two previous years for the individual office. The complete accounting records, containing transactions from all external offices and headquarters, are in IRIS. Reports are extracted from IRIS that allow external offices to review the status of their accounts and to identify and correct any errors made.</p> <p>A specific report providing information on all legacy general ledger account transactions for external offices was implemented in May 2006. Two additional reports that provide an improved and full overview of the field accounts were published at the end of 2006. These reports are now regularly made available to all field offices and can be accessed remotely by external office staff.</p> |

Recommendation**Response from ILO management**

Recommendation 30: We recommend that the ILO review its contingency arrangements and management oversight to ensure that sufficient resources remain available to deliver an appropriate level of verification activity.

During the implementation phase of IRIS, the headquarters verification unit was required to interrupt its regular verification work to assist in the data conversion and data cleansing exercises required before and after go-live. The verification process resumed in October 2006.

In an effort to reinforce the verification units' capacity in a period of limited resources, it was possible to employ, at no cost for the ILO, the services of a qualified Associate Expert who is currently supporting the unit on a 50 per cent basis for a two-year period from 1 October 2006.

Recommendation 31: We continue to recommend that the ILO keep the level of suspense account balances under review. We also recommend that the ILO carry out a review of staff advances to ensure that account balances remain valid and that advances are being actively managed.

Management acted early on this recommendation and developed reports in IRIS to facilitate the review of advances on an ongoing basis. These reports are now available to all external offices.

The routine verification process conducted by the regional and headquarters verification units, and the new reporting mechanism implemented in 2005, have had and continue to have a positive impact in the control of suspense account balances. New instructions to external offices, issued in March 2006, have also contributed to enhance the capacity of the Office to maintain control over suspense accounts.
