



FIFTH ITEM ON THE AGENDA

**Report of the Chief Internal Auditor for  
the year ended 31 December 1999**

**Report of the Chief Internal Auditor on significant  
findings resulting from internal audit and investigation  
assignments undertaken in 1999**

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 1999 (see appendix).
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 Internal Audit are thoroughly evaluated, and there is constant dialogue between the administrative services and Internal Audit to give effect to them.

Geneva, 28 February 2000.



## Appendix

### Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 1999

#### Introduction

1. The internal audit function in the ILO is established under article 30(d) of the Financial Regulations of the Organization. It is a management control that measures and assesses the effectiveness of other controls and compliance with ILO policies and procedures. The internal audit function is directed towards the review and appraisal of financial, administrative and operational procedures and activities, the objectives thereof being to ensure sound internal control at reasonable cost; compliance with ILO regulations, rules, policies and procedures; the integrity and soundness of management practices; the most economical and efficient use of resources; the accuracy of the accounting, financial and other data used for management information; and the proper accounting for and safeguard from loss of the assets of the Organization. The detailed programme of work for the year was coordinated with the External Auditor, and all audit findings and recommendations were communicated to the External Auditor.
2. Audits are generally aimed at reviewing selected functions, systems and operations. The audit objectives for each exercise carried out in 1999 are individually stated below.
3. A new internal audit team was constituted in 1999 with the appointment of the new Chief Internal Auditor, effective 1 January 1999, and the finalization of the recruitment of three new auditors who took up post in mid-May 1999. The latter became operational at the end of June 1999 after a period of initial orientation and familiarization with ILO rules, procedures, and systems. The Internal Audit Unit functioned in 1999 with reduced staff resources until the new team was fully reconstituted. An improved system for monitoring management's implementation of audit recommendations was developed and installed by Internal Audit. For the first time Internal Audit reviewed simultaneously two functions carried out partly by the headquarters Support Services Sector and partly under delegated authority to directors of external offices under the supervision of regional offices.

#### Headquarters audits

##### ***Personal accounts of officials and experts administered by the Payment Authorization Section (PAIE) of the Financial Services Department (FINANCE) in the Support Services Sector***

4. The Payment Authorization Section (PAIE) of the Financial Services Department holds primary responsibility for the follow-up, control, recovery and adjustment of advances recorded in the personal accounts of all officials and experts serving at headquarters and in the field. This responsibility is decentralized to directors of external offices as regards travel advances made to Professional and General Service staff stationed in the field, and as regards advances against salaries to local support staff. A separate audit was conducted of personal accounts administered in field offices, which is reported below. The advances are made against statutory entitlements stated in the Staff Regulations, or as are provided in applicable rules and circulars. Personal accounts are categorized by entity, each recording separately advances against salary, education grant, income tax, mobility and hardship allowance, car purchase (experts only), rent (as may exceptionally be authorized), and advance of stipends for travel on official business. The advances are recovered and cleared from the personal accounts in accordance with the modalities stated in the regulations, rules and circulars.

5. The audit's objectives were to review the status of a selected number of accounts, assess the accuracy of accounting and transaction coding, and evaluate the adequacy of the internal control system over the advance accounts and the due recovery and adjustment of the advances.
6. The audit results indicated that the internal control system was not operating quite efficiently. Advances, some quite old, not recovered or only partly recovered, were found on about 33 per cent of the accounts reviewed. They remained on account due to unsystematic review and control of the personal accounts and weaknesses in the follow-up system. Difficulties seemed to arise in identifying wrong or incomplete accounting and in detecting outstanding items. One of the principal reasons appeared to concern the use of reference numbers to code transactions. Some 38 per cent of the accounts reviewed revealed wrong use of reference numbers. The rate of error was much greater on accounts that used the personnel number, with a designation, to match single advances and corresponding recoveries. It was considerably less on accounts where the original transaction date was used as the reference number. The Office should consider using uniformly the date of the advance as the transaction reference to eliminate confusion and reduce the incidence of coding errors.
7. Failure to systematically adjust for exchange rate differences caused transactions fully settled to remain on account for an inordinately long period. Misposting of transactions in some cases in the wrong personal accounts of the official, or maintaining in isolated cases an additional account for an official, under a separate identity, resulted in the separation of related advances and recoveries. These situations also contributed to the difficulties in monitoring the status of the accounts.
8. There was failure on the part of a few officials to respect the deadline for the submission of travel claims concerning advances of stipends made for official travel. The Office should consider salary deductions to recover travel advances remaining outstanding one month after the time limit for the submission of claims has elapsed. The Office should also consider enforcing a policy whereby no additional advances for travel (and also other types of advances) are granted where there is consistent failure on the part of an official to delay submitting his/her claims to have past advances regularized.
9. Staff with supervisory functions should enhance their review of account coding documents and supporting documentation before countersigning them to ensure the completeness and correctness of the accounting. An analysis of rejected account coding documents should be made to detect the most common errors or omissions so that corrective measures can be taken to minimize their reoccurrence. The files should state the reasons for accounting adjustments for errors detected. These actions would help measure performance and improvement, which might in turn also help reduce the incidence of coding and posting errors and other omissions.
10. Special attention should be paid to the accounts of staff preparing to depart. Procedures should be formally instituted to ensure that the following take place in a more organized and consistent manner: the timely exchange of information about date of departure, timely follow-up and appropriate action regarding any outstanding advances, and timely communication of the status of the accounts in a given format.

### ***Insurance administered by the Internal Administration Bureau (INTER) in the Support Services Sector***

11. The Internal Administration Bureau holds responsibility for ensuring adequate insurance cover for all ILO assets, including buildings, equipment and furniture. It has decentralized insurance matters related to the field to the directors of external offices. A separate audit was conducted of insurance administration in external offices, which is reported below. The Internal Administration Bureau retains overall responsibility to oversee proper insurance administration in field offices to ensure the best protection of the assets of the Organization worldwide, the value of which has considerably increased with the ownership of more premises, increased mobility of staff and increased computerization.
12. The objectives of the audit with respect to insurance taken at headquarters were to evaluate the adequacy of insurance arrangements made to obtain sufficient compensation for the reinstatement,

replacement or repair of damage or loss of assets at headquarters. Internal Audit also reviewed the adequacy of other insurance arrangements, such as those for equipment in transit, cash in transit, and third-party liability.

13. Taking into consideration the overall insurance portfolio handled at headquarters and the constraints on resources devoted to the function, insurance administration was assessed as satisfactory. The Chief Internal Auditor recommended that the Office strengthen the resources, staff time in particular, allocated to insurance administration, and increase the technical training of staff responsible for insurance matters. The subject is complex and requires vigilance, consultations, risk-assessment, negotiations, follow-up and a fair amount of administrative work.
14. Regarding the headquarters building and its contents, in the light of the insurance conditions stated in the general conditions of the "Fire and all-risks" insurance policy, it would appear that that full compensation might not be secured in the event of total or partial damage to the building. The insurance amount was stated in the insurance policy at the value of Sw.fr.325,490,000, as determined by an independent valuer in August 1995. It was not linked to the Zurich or Geneva Construction Price Index to secure replacement value, and it seemed that the insurance conditions subjected the building to depreciation for the calculation of compensation. Clarifications were required from the insurers on the extent to which the ILO would be indemnified in the event of damage, and the insurance conditions, if necessary, would need revision to guarantee full replacement value.
15. The Chief Internal Auditor also recommended that the Office obtain insurance for the removal of debris, which was not covered, as this can represent a big outlay in the event of serious damage to a part of, or the whole, building. The Office should also re-examine the adequacy of the period of "loss of rents" for alternative premises in the event of a risk occurring, as it could take longer than the one year provided in the insurance guarantee to repair or reinstate in the event of severe damage to the building.
16. The insurance amount for the reconstitution of archives, which was insured at first risk up to US\$13 million, has remained the same since 1987. There was difficulty in estimating a fair value for the reconstitution of archives in the absence of an adequate inventory of the materials held in the Library and other storage areas. The Office has some 2.5 million items, plus a collection of rare books and documents, some unique, a fair quantity constituting the heritage of the Organization. In the event of loss or damage caused by one of the insured risks, it might prove difficult to determine the value of any loss. The Chief Internal Auditor recommended that clear policies be established regarding the definition, preservation, and conservation of all materials that constitute "archives". Insurance should be determined on the basis of a fair estimate of the value of the different components of the archives. In so doing, it should take into account internal reconstitution capabilities through computerized back-ups available, applied, and further desired. All preservation and reconstitution possibilities through modern technology, and off-site storage, should be considered.
17. The Office has satisfactory security and maintenance arrangements and rules regarding custody of assets and reporting of losses. It would serve the Office to more fully disclose, among the staff responsible for the custody and preservation of assets, the pertinent insurance conditions regarding these matters in order to enhance risk awareness.
18. To further improve insurance administration and/or insurance coverage, the Office should also maintain back-ups of insurance contracts and pertinent documentation in case of accidental loss or destruction to prevent disruption of insurance administration. Written work procedures or check-lists, which would facilitate the work of current and future staff dealing with insurance matters, also need to be developed.
19. Self-insurance should be considered where risks could be controlled. The low incidence of theft of equipment in headquarters over the recent years could argue for full self-insurance, or limited insurance covering only those assets most exposed to risk. Under the first option, the Office could establish a reserve fund fully; under the second option, a reserve fund could be installed partially in respect of assets not covered by external insurance. A reserve fund already exists in lieu of Fidelity Guarantee insurance, which could be used instead.

## Field audits

### ***Personal accounts of officials and experts administered in external offices under decentralized responsibility from the Financial Services Department of the Support Services Sector***

20. Internal Audit reviewed the travel advance accounts for Professional and local staff in the field, as well as the salary advance accounts for field-based, locally hired staff. Directors of external offices hold responsibility for according these advances as well as ensuring their recovery, and the respective regional office director is accountable to ensure adequate supervision as regards proper accounting and control of the accounts. Primary responsibility for the entire advance accounts rests with the Financial Services Department, through its Payment Authorization Section.
21. The objectives of the audit were to determine the status of the accounts selected for examination, and evaluate the adequacy of administrative controls over the recording of advances and over the systematic recovery and adjustment of the advances.
22. Overall, Internal Audit found weaknesses related to recording settlements and controlling advances. The major problems related to the incorrect or incomplete accounting treatment of settlements, and coding errors. Causes appeared to relate to a misunderstanding of the accounting procedures, or importance of systematically reviewing account balances. Concerning advances made in external offices to officials in the Professional category on the basis of payment instructions from the Payment Authorization Section, there were cases where the transaction reference provided in the instruction was coded wrongly. Although few in number, their significance lies in the fact that they remained undetected for too long. The risks are that some advances may remain on the books even after an official leaves service, which might result in unrecoverable losses to the Organization.
23. Internal Audit recommended clearly delineating the officials responsible in external offices, regional offices and at headquarters for the control and supervision of the accounts. Improved training is needed, and the Financial Services Department should institute and enforce periodical reporting by the regional offices on the status of the accounts in the regions.

### ***Insurance administered in external offices under decentralized responsibility delegated by the Internal Administration Bureau of the Services Support Sector***

24. The objectives of the audit were to evaluate the sufficiency of insurance coverage and the adequacy of insurance administration in the field; determine the extent of compliance by field offices with the instructions and guidelines provided by headquarters regarding insurance matters; and assess the sufficiency of these instructions and guidelines in the light of the audit results. Directors of external offices are responsible for these functions under the supervision of the regional offices. The Internal Administration Bureau holds primary responsibility to oversee proper insurance administration of insurance in the field.
25. All external offices took out insurance for contents against fire and allied risks. External office insurance policies normally covered burglary insurance. Vehicle insurance was adequate worldwide. Most offices appeared to have adequate fire-fighting equipment, but the instructions should advise on the need for fire-fighting and evacuation drills, which were not always carried out.
26. Although external offices generally complied with the instructions and guidelines provided by headquarters, most of them had inadequate understanding of insurance matters or lacked the ability to properly assess risks. Often, these shortcomings resulted in poorly negotiated contracts, exposing the ILO to risks of under-insurance. Regarding offices rented or provided rent-free, most offices have not taken out the requisite tenants' risk insurance. There was double insurance in some cases regarding third-party liability insurance taken out by some offices, since this was covered already by a global insurance policy. To improve the capacity of external offices to negotiate better insurance conditions and terms, better training was required. It would serve to improve the guidelines by

including therein questionnaires and check-lists to help assess risks to ensure complete coverage and avoid double insurance.

27. Regarding the buildings owned by the ILO outside of headquarters, there appeared to be under-insurance in some cases, which could result in the need to secure financing from the Office's budget to reinstate assets lost in the event of partial or total damage, since insurance compensation would be inadequate. To secure better insurance coverage for buildings owned, the Office should regulate more clearly the need for periodical valuations of premises in the light of local market conditions.
28. Some offices did not comply in updating regularly their inventory records and adjusting promptly the insurance amounts for additions to and deletions from the inventory. Some offices also tended to list furniture items on an individual basis, rather than as a set, hence classifying them as expendable items rather than as non-expendable items. The risk is that they would be excluded from the inventory records under the new inventory rules that require recording of non-expendable items only for accounting and reporting purposes. This can result in substantial under-insurance for office furniture, particularly for the larger offices, since inventory records normally serve as the official records to determine and revise insurance amounts. The guidelines on insurance and the inventory manuals should be improved on these matters.
29. External offices did not systematically apply to the Office of the Legal Adviser for clearance of rental contracts or Letters of Understanding (for offices provided rent-free) regarding insurance clauses therein. Nor did they systematically obtain clearance of insurance contracts from a legal standpoint, particularly as regards the "ILO Immunity Clause". As safeguards, the regulations should enforce the systematic submission to JUR of insurance policies, rental agreements or Letters of Understanding for clearance before signature.
30. Insurance amounts taken in local currency tended to erode in value in countries with high inflation rates, with the risk of obtaining inadequate compensation in US dollar terms. Offices that maintain policies in local currencies should seek insurance in US dollars instead, as a hedge against inflation or currency devaluation. Where this is not possible, the offices concerned should use the dollar book-value of the buildings and inventory records as the basis to determine the insurance amounts in local currency, converting the same at the official UN exchange rate.
31. Self-insurance should be considered where risks could be controlled. The low incidence of theft of equipment in most external offices over the recent years could argue for full self-insurance, or limited insurance covering only those assets most exposed to risk. Full self-insurance could also be practised in external offices where minimal amounts of cash in safe are kept, since past experience has revealed a low risk of loss in this area.
32. As a way of monitoring proper compliance with the instructions and guidelines, and to evaluate regularly the adequacy of the insurance coverage taken out by external offices, regional offices should be required to report to the Bureau of Internal Administration the status and adequacy of insurance arrangements in their respective regions, in an appropriate and condensed format, and on an annual basis.

***Operational audit of the Regional Office for Arab States (ROAS) and the Multidisciplinary Advisory Team for Arab States (ARMAT)***

33. The objectives of the audit were to review financial, administrative, personnel and operational matters and practices, in order to evaluate the effectiveness of the internal control system; the efficiency of procedures; the extent of compliance with established rules, regulations, policies and procedures; the reliability of accounting data; the extent to which assets were accounted for and safeguarded from loss; and the adequacy of internal planning and monitoring with regard to the operational activities of the Office.
34. The overall standard of work in financial, administrative and personnel matters was satisfactory, but measures are required to improve work procedures for more effective cash forecasting; to provide continuity of record-keeping and financial reporting in the event of absence; to improve compliance

with travel regulations; to document more fully the use of official cars; to control overtime costs; and to improve on the back-up plan concerning information technology. The staff's understanding of policies and rules related to procedures and controls with regard to the preparation, revision, and approval of technical cooperation project budgets was inadequate, although headquarters provided training during the year. Increased support would be required from headquarters, since further decentralization of financial and administrative matters took place in the region very recently. Office communication charges appeared very high, and internal training should be organized for staff unfamiliar with electronic mail.

35. Regarding operational activities, the work planning and monitoring systems need to be improved to assist in evaluating results and the impact of activities undertaken, and to allow for the timely reorientation of the work programme as might be necessary. Mission reports need to be completed on a more timely basis and improved in substance; a better monitoring system is required to measure the results and impact of seminars and workshop activities; and improved work procedures and tools are required to monitor external collaborators' work and assess its contribution in relation to the approved work programme. The filing system should be improved to enhance the ability of ROAS and ARMAT to effectively monitor progress in activities and evaluate work.
36. The Programming Unit was not adequately equipped to properly support technical activities and assistance. In order to increase its effectiveness, programming tools should be introduced and further training is necessary. Coordination between the Programming Unit and the Finance and Administrative Units needs to be strengthened to adapt to an increasingly decentralized environment.
37. It is necessary to enhance teamwork and coordination and improve communications within and between the Regional Office and the multidisciplinary team; roles and responsibilities need to be more clearly defined in the context of further decentralization.

***UNDP-funded technical cooperation project in Yemen –  
YEM/97/300 (Support to Yemen National Poverty Alleviation  
Programme under National Execution (NEX) modality)***

38. Internal Audit reviewed the components implemented by the ILO of the UNDP-funded project YEM/97/300. Various UN agencies participated as cooperating or executing agencies. The ILO was implementing the labour market information systems (LMIS) component and the human resources development (HRD) component, for which separate Letters of Agreement were signed by the parties in August 1997 and January 1998 respectively. Resources allocated for both components amounted to US\$620,000.
39. The audit's objectives were to review and assess the effectiveness and efficiency of financial, administrative and operational matters, and progress in the attainment of the objectives regarding the components of the project implemented by the ILO.
40. Regarding the LMIS component, the project suffered from inadequate counterpart support, which prompted the early departure of the expert. The project was thus delivered only in part. UNDP was envisaging continuation of the activities by employing short-term consultants through the ILO. Regarding the HRD component of the project, which started in April 1998, counterpart support had substantially improved and project activities were progressing quite satisfactorily. In the absence of technical specialists in the fields of LMIS and HRD at the level of ARMAT, the MDT should seek assistance from headquarters for the provision of the necessary technical support to, and backstopping of, the projects.
41. Concerning administrative matters, the financial records reflected actual expenditure correctly. There was some misunderstanding regarding the establishment of obligations, which could be rectified easily; this did not affect the overall correctness of the accounts. It occurred in the phase of transition to the decentralization of financial and administrative matters to the Regional Office for Arab States, and was due to a misunderstanding of concepts and procedures.

42. In November 1997 the ILO was selected to provide future services for a further amount of US\$600,000 for the National Programme on Productive Families (NPPF) component of the project, for which a Letter of Agreement has not yet been signed. Follow-up should be ensured to conclude a Letter of Agreement with the Government regarding this component.

### Assignments in progress

43. At the end of 1999, there was one work item in progress. Internal Audit was compiling a synthesis of audit findings and recommendations regarding field audits undertaken in 1997 and 1998, with the objectives of identifying risk areas for audit concentration and advising management regarding any significant problem areas. Internal Audit will complete this work in the second quarter of 2000.

### Investigations

44. During 1999, Internal Audit was not called upon to carry out any major investigations of fraud or malpractice.

### Monitoring of follow-up action

45. Internal Audit is responsible for monitoring the action taken by management on its findings and recommendations. The status report below provides information regarding the action taken by management on the recommendations resulting from audit assignments undertaken in 1998, as included in the report of the Chief Internal Auditor for 1998 and considered by the Committee at the 274th Session (March 1999) of the Governing Body. It also gives the status of recommendations outstanding from previous years. The improved system of follow-up devised at the beginning of 1999 by Internal Audit increased considerably the rate and comprehensiveness of replies regarding action taken by managers on the Chief Internal Auditor's recommendations. Following this experience, the Chief Internal Auditor will be making an official recommendation shortly to further improve the Office's follow-up mechanism on audit recommendations.

### Headquarters audits

46. The travel circular has been completed in draft and the Chief Internal Auditor has been informed that it will be issued shortly. The Office completed the implementation of all other recommendations made in 1996 and 1997. The Financial Services Department of the Support Services Sector reported having implemented the recommendations made in 1998 regarding the Cash Office and the Treasury Operations Section. In 1999, inventory manuals were issued and the guidelines on procurement and contracting were consolidated into a singular circular. All the suggestions made by the Chief Internal Auditor were taken into consideration.
47. The Chief Internal Auditor also recommended in 1998 that the Office take measures to achieve a higher level of efficiency and effectiveness in personnel administration. He welcomed the new human resources strategy proposed to the Governing Body at its 276th Session (November 1999), which aims to improve communication, information and the transparency of policy and procedures. The Office states that this will entail new approaches, inter alia, to the career development of officials, the handling of job applications and job descriptions, and performance management, and in so doing will address the significant audit recommendations regarding these issues. Regarding the policy statement for the conditions of employment for national correspondents, the Office was examining the establishment of their remuneration levels by reference to the salary scales of the common system's national officer category. Due to resource constraints, the Office has not yet documented personnel procedures in manuals, either for staff of the Human Resources Development Department or as a reference tool for managers, but was giving priority to revising and updating the External Offices Manual. Furthermore, the Office has not yet begun to consolidate current policies and procedures in the main personnel circulars, but should start this important task as part of the new personnel strategy.

48. The Chief Internal Auditor reported in document GB.274/PFA/3 (March 1999), that some audit recommendations linked to the effective implementation of the new Health Insurance Information System (HIIS) (GB.268/PFA/3, March 1997) remained outstanding. HIIS came into operation in April 1999 and a new secretary of the Fund was appointed at the same time. Internal Audit noted that the priority of the Management Committee of the SHIF in 1999 was to perfect the system and train staff in its applications and new work methods. It proposed to address the outstanding recommendations in the year 2000. Internal Audit will follow up on the Management Committee's actions regarding these matters.

## Field audits

49. At end of 1999, the status of recommendations reported by management as having been implemented, was as follows.
50. *1998 audits:* A total of 484 recommendations were made, of which 398 (82 per cent) were implemented and 86 (18 per cent) were in the process of being implemented. There was a total of 92 exchanges of official correspondence on these issues in 1999.
51. *1997 audits:* A total of 218 recommendations were made, of which 202 (93 per cent) were implemented, and the remaining 16 (7 per cent) were being followed up. There were a total of 55 exchanges of official correspondence on these issues in 1999.
52. Most of the recommendations outstanding relate to the rationalization of work methods and procedures that was still in progress at end of 1999.
53. Regarding the recommendations concerning IPEC action programmes, the Chief Internal Auditor noted that substantial measures were being implemented in 1999 to achieve better direction, control and reporting through fewer but larger action programmes and improved monitoring and evaluation tools and means. The Office also intends to improve the selection of implementing partners. With regard to the action programmes in the country where control was found not to be operating efficiently, the Office has been taking action to redress matters in consultation with the field office and the implementing partners concerned. Steps are being taken to obtain reimbursement for expenditure that was not adequately substantiated. The Chief Internal Auditor was also informed that financial and technical reports were now being submitted on time.

Geneva, 5 February 2000.