



SIXTH ITEM ON THE AGENDA

**Report of the Chief Internal Auditor
for the year ended 31 December 2001**

**Report of the Chief Internal Auditor on significant
findings resulting from internal audit and investigation
assignments undertaken in 2001**

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 2001 (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 the Office of Internal Audit and Oversight are thoroughly evaluated, and there is constant dialogue between managers and the Chief Internal Auditor to give effect to them.

Geneva, 13 February 2002.

Appendix

Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2001

Introduction

1. The Office of Internal Audit and Oversight (IAO) of the ILO fulfils an independent oversight function established under article 30(d) of the Financial Regulations. Through audit, inspection and investigation processes, the IAO determines the adequacy and effectiveness of the Organization's system of internal control, financial management and use of assets. Its aim is to provide reasonable assurance that the activities have contributed to the attainment of the Organization's goals and objectives. More specifically, to achieve this, the IAO reviews and appraises accounting, administrative and operating controls; evaluates the responsible, efficient and economic use of the Organization's resources; ascertains the extent of compliance with established rules, regulations, policies procedures and plans; determines the extent to which assets are accounted for and safeguarded from loss; assesses measures taken to prevent fraud, waste and malfeasance; ascertains the reliability of financial and management information; and examines the adequacy of the planning and monitoring system with regard to the operations, functions, programmes and activities within the Organization. Where necessary, the Chief Internal Auditor makes recommendations to improve their adequacy, efficiency and effectiveness. The IAO adopts a proactive approach to facilitating the assessment of risks and controls and promotes a learning culture in support of management's process to enhance efficiency, effectiveness and value for money in the activities of the Organization.
2. The IAO does not engage in any activity that it would normally review or appraise or which could be construed as compromising either its independence or objectivity. The IAO has full and free access to all records, personnel, operations, functions and other material relevant to the subject matter under review. Its monitoring system is systematized to ensure that all audit recommendations are properly followed up by management, and implemented.
3. During the reporting period, the IAO reviewed (i) the administrative, financial and managerial processes of the Cooperative Branch at headquarters; (ii) the transitory accounts of ILO/ITU Staff Health Insurance Fund (SHIF); (iii) control over cash in the Cash Office of the Treasury Operations Section at headquarters; (iv) six field offices; and (v) seven technical cooperation projects. The work done is listed in Annex 1. Internal Audit also contributed to the African Regional Training Workshop on Budget Management and Administrative and Financial Matters. There was systematic follow-up made of implementation by management of outstanding recommendations from current and previous year's audits. Suspected irregularities in reporting disbursements on one of the technical cooperation programmes are still under examination. Significant matters of this case and of reports currently being finalized for seven other assignments completed in the field will be conveyed in the next report of the Chief Internal Auditor to the Governing Body.
4. The detailed programme of work for the year was coordinated with the External Auditor and all audit and inspection findings and recommendations were communicated to the External Auditor.
5. The results of the work undertaken by the IAO during 2001 indicate that the overall system of internal control within the ILO was operating satisfactorily and continues to provide reasonable assurance that, in the normal course of business, significant irregularities would be prevented or disclosed if they occur. The reports of the Internal Auditor were welcome, and his recommendations were considered relevant, useful, and an aid to management. The Office recognizes that compliance with regulations, although a fundamental prerequisite, does not always guarantee effective expenditure or operations. Management continues to foster a culture that reflects accountability and results-based outcome to ensure value for money through the best possible use of resources. The Director-General welcomed the Chief Internal Auditor's Guidelines to Directors and Managers on Accountability and Oversight which will be issued shortly.

Headquarters audits

Audit of the ILO Cooperative Branch (COOP) in the Job Creation Enterprise Development Department (EMP/ENT)

6. The audit's main objectives were to assess the effectiveness and efficiency of the branch's operations, including compliance with financial and other administrative rules, regulations, policies and procedures; and to evaluate performance towards the branch's objectives.
7. The handling of administrative matters and compliance with rules and instructions were on the whole satisfactory; better planning and/or work procedures were, however, needed to improve travel and external collaboration contract administration.
8. At end-2000, only 5 per cent remained of total budgets for COOP's ongoing technical cooperation projects. Its large ACOPAM¹ project had ended in that year, and proposals for additional funding did not materialize. Few resources were left on the three DANIDA-funded cooperative development projects (COOPNET,² COOPREFORM³ and INDISCO⁴); while there were no decisions yet regarding funding of any of these projects beyond 2003 within the ILO/DANIDA framework agreement, COOP hoped that further funding would be available on a rolling basis. The other active projects at the time of the audit had terminated or were to terminate at end-2001.
9. There were projects in the pipeline; except for INDISCO, many were regional projects, and one was interregional. Funding for only one seemed secured; four proposals had been or were about to be submitted to donors, and an additional four proposals were under preparation.
10. Activities concerning technical cooperation had thus slowed down and were expected to remain at a low level pending further approvals and the launching of approved projects. COOP was working at improving its portfolio of technical cooperation projects. COOP was entrusted in December 2000 with the management of the ILO's Local Economic Development (LED), which comprised a fairly large portfolio of projects. The branch staff was heavily engaged during the year 2000 preparing the "white report" for the ILC discussion on cooperatives (held in June 2001); and it was working on further reports in preparation for the Committee on the Promotion of Cooperatives which is being organized in June 2002. COOP also undertook work in the field of research, documentation and information.
11. Regarding the ACOPAM project which has ended, the last independent evaluation was conducted in November 1995 at end of Phase IV of the project. It was expected that a post-project evaluation would be done in two phases: a desk review of documents followed by a possible field visit to the countries served by the project. Internal Audit recommended that COOP should follow up for necessary funding for a field post evaluation of the ACOPAM project as the most viable means to measure impact on the target groups that were addressed during implementation, whereby lessons could also be derived. The Chief Internal Auditor was recently informed by COOP that a field post evaluation of the ACOPAM project, funded by the Government of Norway, will effectively take place from April to August 2002. Regarding COOP and COOPREFORM, no independent evaluations have been undertaken since 1996, and none was planned in the immediate. A terminal

¹ Appui coopératif aux activités rurales bénéficiant de l'aide du PAM dans le Sahel (Cooperation support for rural activities benefiting from PAM aid in the Sahel).

² Interregional Project on Human Resource Development for Cooperative Management and Networking.

³ Interregional Service Project for the Promotion of Structural Reforms to create an environment conducive to the development of viable and autonomous rural cooperative organization and legislation.

⁴ Interregional Service Project to Support Self-Reliance of Indigenous and Tribal Communities through Cooperatives and other Self-Help Organizations.

evaluation of four INDISCO projects in one country was undertaken in 1999. There appeared to be a need to formulate policies clearer as regards the evaluation of technical cooperation projects.

12. The other most significant recommendations made to COOP were to (i) maintain information on spreadsheets regarding missions, seminars, and external collaborators to enhance reporting capacities as regards the contributions they make to the operational and strategic objectives of the ILO; (ii) improve its information and reporting systems regarding ongoing technical cooperation projects to indicate the strategic/operational objectives addressed; project evaluation calendars and the significant evaluation conclusions; and (iii) improve its information concerning technical cooperation projects in the pipeline, to indicate progress regarding project formulation, budget proposed, government approval, fund-raising efforts, donor approval, budget approved, technical field, strategic/operational date and planned starting date.

Audit of the transitory accounts of the Staff Health Insurance Fund of the ILO and the ITU (SHIF)

13. The SHIF's transitory accounts record advances on benefits, as may be exceptionally authorized under article 2.10.2 of the SHIF's Regulations for obligations already incurred, and the recoveries when the expense claims are finally submitted and processed. The transitory accounts are also used to record errors that might occur in settlement batches for necessary adjustments and recovery.
14. The audit examined the policies, procedures and financial controls in place concerning the management of the Health Fund transitory accounts to assess whether they were sound and being adhered to.
15. The conclusion of the audit was that control over transitory accounts which past Internal Audit reports have always found inadequate, remained weak. Old balances on the accounts needed to be urgently cleared by SHIF with the collaboration, as necessary, of the Financial Services Department and external offices concerned. Data entry procedures on the Health Insurance Information System (HIIS) with regard to the beneficiaries of entitlements have sometimes resulted in payments of benefits to the wrong persons, and as the SHIF's policy has been to inappropriately accept that they be recovered from future benefits accruing, they ended up as advances in the transitory accounts when they were detected and reported; some of these advances were still outstanding, wholly or in part. Write-off approvals by the SHIF's Management Committee would be necessary regarding cases that might present difficulties to resolve.
16. Improper accounting practices in respect of recoveries from third parties or other insurances, inadequate communication and tools, and internal control deficiencies in some respects needed also to be addressed in a decisive manner to improve SHIF's capacity to monitor the advance accounts in an organized and systematic manner, avoid the risk of misreporting benefits paid, and minimize the risks of loss and possible fraud perpetration through these accounts.
17. The Chief Internal Auditor recommended that (i) one official in SHIF should be designated to monitor and reconcile the advance accounts, and to report quarterly to the SHIF Executive Secretary on their status; another official should be designated for necessary back-ups; and the staff concerned should be provided with training on accounts reconciliation; (ii) SHIF should regularly report to its Management Committee the status of the advance accounts, which would assist the Committee in overseeing that control over these accounts is made properly and consistently; (iii) the Financial Services Department should maintain a fiduciary oversight responsibility over the SHIF's advance accounts, as they form an integral part of the ILO's general ledger, and they should therefore receive copies of the status reports; (iv) information sharing and communication within the SHIF and between the SHIF and the Compensation Committee secretariats of both the ILO and ITU should be improved to achieve more prompt recovery of reimbursable amounts in respect of claims or claims applications for service-incurred illness and accident; (v) improved communication about officials separating from the ILO should be secured to ensure the prompt recovery of outstanding SHIF advances from terminal benefits; (vi) separate transitory accounts should be opened to record compensation recovered from third parties and other insurers in respect of illness or accident of a protected person; and matters settled should be cleared from this account before the end of each financial period; and (vii) the Financial Services Department should, in conjunction with its development of the new financial information system, consider the feasibility of including a feature that would allow the HIIS to be linked directly to the SHIF's advance accounts in the mainframe to facilitate monitoring and accounts reconciliations; meanwhile, transitory measures through the ORACLE database and use of the BRIO software should be implemented.

Verification of control over cash held in the Cash Office in the Treasury Operations Section (TRES/OPS) of the Treasury and Accounts Branch

18. The cash in hand at end-June 2001 agreed with the financial records. To improve internal control and security, the Chief Internal Auditor recommended that (i) a copy of the ledger sheet be printed, dated, signed and filed appropriately as a means of averting risks of retroactive modification of transactions recorded in the cashbook; (ii) the old cheques in stock be destroyed; and (iii) a full cash count be performed each time an official involved leaves or takes up post in the Cash Office.

Field offices

19. The IAO completed the reporting on audits of three area offices and one stand-alone Multidisciplinary Advisory Team in the Africa Region. The audit objectives were to evaluate the adequacy of the internal planning and monitoring with regard to operational activities of the offices; the effectiveness of their internal control system; the efficiency of work procedures; the extent of compliance with established policies, regulations and rules; the reliability of the accounting data and other information; and the extent to which assets were accounted and safeguarded from loss.
20. Overall, financial, administrative and planning and monitoring work processes were assessed as generally satisfactory in three offices although procedures in some areas needed to be streamlined to achieve improved internal control. In the other office, significant improvements were required in order to ensure internal control and better compliance with rules and regulations, in particular as regards the management of banking transactions, and accounting and budgetary matters. Concerning this particular office, the Chief Internal Auditor recommended supplementary training to officials of its finance unit, and a review of functions to achieve an appropriate workload distribution and segregation of duties to improve internal control.

Work planning and monitoring

21. The workplans of the offices needed to systematically specify source of funding and approved allocations for activities planned, with objectives and indicators of achievements. Individual workplans of both the programming staff and the finance and administration staff, based on the overall workplan, should be drawn up, and regular meetings between them should take place, providing concise written records of matters discussed, decisions taken and follow-up required. These measures would assist in achieving better coordination in support of programming and technical cooperation activities.
22. The offices did not have formal mission planning and costing systems. The Chief Internal Auditor recommended that all units, including projects, should submit annual individual mission plans with source of funding and travel cost estimates; they would serve to enhance control over generally scarce mission credits, improve regular budget forecast exercises, and assist in identifying budget revision needs, including on technical cooperation projects, for timely action. The mission plans would need to be adjusted periodically in accordance with workplan revisions. Improvements of the electronic filing and dissemination system of mission reports were also recommended. Furthermore, the offices needed to establish a follow-up system to ensure that they receive all mission reports regarding incoming missions.
23. Regarding seminars and workshops, the Chief Internal Auditor recommended, for monitoring and reporting purposes, an electronic compilation of information and data, with details of the operational and strategic objective addressed; budgeted and actual costs; information on participants; the reports generated; the distribution of the reports; and any contribution of headquarters units, MDT specialists, and project experts to the activities.
24. RBTC activities also needed to be linked to operational objectives and targets, and internal control improved to ensure that expenditures are promptly charged and reflected in the delivery rate. For completed activities, once expenditure reporting is complete, the project account should be closed and residual funds redeployed.
25. Technical cooperation project budgets needed to be rephased or revised on a timelier basis in order not to impair project operations and for improved budget management.

26. The offices needed to improve planning, work procedures and internal control to ensure that external collaboration contracts are signed only after related commitments are established in the local budgetary system and financial clearance is provided, and that work is not allowed to start without written and signed contracts. A database system about external collaboration contracts would enhance the capacity to monitor compliance with administrative rules; follow-up on work progress; and measure the contribution of outputs to the approved work programme of the ILO.

Management information system

27. The Chief Internal Auditor recommended that offices continuously maintain spreadsheets on missions, seminars, external collaborators and technical cooperation projects, including those in the pipeline to improve management information and reporting capacities.
28. The installation of the budgetary system of the financial management system of FISEXT for field offices was not realized in one of the offices audited. It was recommended that solutions be found by the responsible regional office in order to improve budgetary control.
29. Some offices made back-up copies of data only monthly; others daily and monthly. Back-ups of data should be performed daily, weekly, and monthly to improve capacity to restore information lost. The back-up tapes were generally stored in a locked room; however, offices have been advised to find suitable off-site storage facilities to store the monthly back-up tapes and thus facilitate data restoration in case of total loss. In one office, the room containing the server also stored old furniture and cardboard boxes gathering dust. The responsible regional office should issue clear instructions to office directors about data security.

Financial matters

30. In one office, the Chief Internal Auditor recommended higher-level contact with the bank to have a chance of resolving the generally long delay (averaging 18 days) in crediting funds transferred to replenish the ILO account. In another office, instances of irregular signing of cheques were found. There was no indication that the payments were fraudulent; however such negligence has inherent risks. Closer vigilance was required regarding compliance with cheque-signing instructions.
31. In three offices, the same official performed the bookkeeping and bank reconciliations while there was adequate staff to allow the segregation of these functions to improve security and control. Two offices had old outstanding and unmatched items in their bank reconciliation statements. One office experienced difficulties in reconciling bank and imprest reports. The reconciliations were not systematically performed promptly at month end. The Chief Internal Auditor recommended that the directors of field offices, and the responsible regional office, supervise more closely the reconciliation work and pay attention to old items in reconciliation, which might indicate inefficiencies or irregularities.
32. All offices needed to pay better attention to clearing suspense and personal account transactions. Although the responsible regional office has provided advice on using the GL reference in clearing transactions, coding errors remained frequent. To assist the offices to monitor their suspense account situations in an organized manner, and take prompt corrective measures, as necessary, the Chief Internal Auditor recommended that the responsible regional office should provide on a regular basis to all offices, the relevant financial status reports (GLREG18X).

Internal administration

33. The most significant administration matters needing attention were to (i) streamline work processes to document better compliance with the Financial Rules as regards procurement activities; (ii) achieve complete and prescribed inventory records, including recording value amounts for the items purchased through the regional office or headquarters; (iii) improve on insurance administration, ensuring the adequacy of the insurance amounts at all times; and (iv) more closely monitor compliance with rules regarding use of official vehicles.

Personnel administration

34. Most of the personnel administration matters reviewed were found correct. Offices should ensure the correctness of standing data for family allowance entitlement in their Local Payroll Systems.

Attention needed to be given to the requirement to complete performance appraisals on a timely basis. The Chief Internal Auditor also recommended a review of a few precarious contracts under Service Agreement and a closer monitoring of overtime.

Audit of technical cooperation projects

35. Reporting on two technical cooperation projects was completed.

GAB/00/02 IBR: Projet d'appui à la réhabilitation de la caisse nationale de sécurité sociale du Gabon

36. The project was supporting national efforts to rehabilitate the national social security funds of Gabon. The inappropriate design of the project, the short time frame with too many things to do, and inadequate actions to ensure timely release of donor's funds raised several implementation problems. The Chief Internal Auditor recommended that (i) a request be made to the donor to extend the project's duration on the basis of a revised workplan and revised budget, taking into account the accumulated delays and likely budgetary savings; (ii) measures be taken to speed up the procurement and delivery of equipment required, within the framework of the Financial Rules; and (iii) the Office improves and disseminates guidelines to secure correct and timely application to ensure the timely release of donor's funds for projects financed by the World Bank.
37. To avoid similar operational problems in the future, it would appear more reasonable to have a preparatory phase to make the initial arrangements (equipment procurement; prospection of candidates for experts and/or consultants' positions), with the support of the concerned technical and support units. A preparatory phase would ensure that the project makes good headway, and activities are properly coordinated, once the implementation phase starts. It should be possible to agree to the financing of the preparatory phase with the donor, and obtain earlier remittance of funds for the implementation phase to open the project account. These measures would assist in concluding on a timelier basis the necessary contracts for required personnel, and the timely installation and commissioning of the equipment for orderly implementation of the project within the agreed time frame.

IPEC Project SAF 98/05/051: Survey of Young People, South Africa

38. The IPEC Action Programme was set to conduct a survey to collect, on a sampling basis, comprehensive statistical data on the extent, nature, patterns determinants and consequences of child labour in South Africa; analyse and store the data collected in a database created for this purpose; organize and conduct a public presentation of the report; and finalize its publication.
39. The Action Programme had made some significant progress towards its objectives. The implementing agency completed reporting on the activities of the project and made public announcements of the results of the survey. The official publication of the survey remained to be completed, and IPEC should continue following up on this.
40. More efficiency could have been achieved by the project if there were consistency in monitoring and backstopping to ensure technical and financial reporting in accordance with the terms of the Agreement, established rules, regulations and practices. Measures to improve monitoring and backstopping capacities would require: (i) improvement of the registry and filing system; (ii) a closer review of the level of support required from headquarters to backstop future IPEC projects in South Africa in light of the ILO capacity in this subregion of Africa; and (iii) identifying more promptly an Implementing Agency's capacity in complying with reporting requirements for the necessary corrective actions.
41. The requirement to open a bank account exclusively for the funds of the IPEC action programme was waived in the case of this project; but although there might have been justifications for this waiver, it should have been better documented and alternative controls should have been required to facilitate financial reporting and audit. Suggestions about the alternative controls – if similar cases should arise – were provided in the audit report.
42. An erroneous charge by UNDP, thereafter corrected, resulted in a loss of some US\$20,000 due to exchange rate fluctuations. It was recommended that the Office takes the necessary steps to recover

the loss. Follow-up by the Financial Services Department is required on this matter. Care would need to be exercised to ensure that EPAs addressed to ILO offices as ILO disbursing units are not copied to UNDP offices to avoid payment duplication.

43. It took some 17 months to finalize an addendum to the original agreement signed on 31 May 2000, following a request for additional resources from the implementing agency to expand the survey. The processes required to amend ongoing agreements should be streamlined, in consultation with the Financial Services Department, to ensure that these are finalized and approved within a reasonable period of time to allow timely project budget revisions and updating of the project budgets on the mainframe for financial control purposes.

Investigations

44. As earlier mentioned, the IAO suspected irregularities in reporting disbursements as regards one of the technical cooperation programmes audited. The degree of correctness or otherwise of the financial reports submitted by the implementing agency is still under examination. The results will be communicated in the next report of the Chief Internal Auditor to the Governing Body.

Monitoring of follow-up action

45. The improved monitoring system instituted by the IAO in 1999, now well systematized, and the enhanced follow-up by directors of field offices and management at headquarters contributed to the receipt of comprehensive reports of the actions taken to implement the audit recommendations. Statistics based on management implementation reports are listed in Annex 2. An Office circular providing guidelines on follow-up for effective implementation of internal audit recommendations is being finalized and will be issued shortly.

Geneva, 30 January 2002.

Annex 1

Reports issued in 2001

1. Audit of the ILO Cooperative Branch.
2. Audit of the Transitory Accounts of the ILO/ITU Staff Health Insurance Fund (SHIF).
3. Review of controls over cash held in the Cash Office.
4. Audit of the ILO Multidisciplinary Team for Southern Africa (SAMAT) in Harare.
5. Audit of the ILO Area Office in Lusaka.
6. Audit of the ILO Area Office in Pretoria.
7. Audit of the ILO Area Office in Antananarivo.
8. Audit of Project GAB/00/02/IBR: Projet d'appui à la réhabilitation de la caisse nationale de sécurité sociale.
8. Audit of IPEC Project SAF/98/05/051: Survey of Activities of Young People, South Africa.

Reporting in progress

10. Audit of the Advisory Support, Information Services and Training Programme (ASIST) in Harare (*draft report completed*).
11. Audit of the ILO Branch Office in Washington, DC.
12. Audit of the ILO Area Office and Multidisciplinary Advisory Team for Central Africa (CAMAT) in Yaoundé.
13. Audit of the Technical Cooperation Project MAG/00/M01/NAD "Project HIMO-ROUTES 2000-2003 – Labour-intensive road methods in madagascar" (*draft report completed*).
14. Audit of (i) the action programmes implemented by the Employers' Federation of Pakistan (EFP) in the period February 1999 to November 2000; and (ii) the ILO RBTC-supported EFP activities for 2000/01 (Pakistan).
15. Audit of the ILO Area Office for India and Bhutan and the South Asia Advisory Team (SAAT) in New Delhi (*draft report completed*).
16. Audit of the IPEC Technical Cooperation Project IND/99/02P/050 "Integrated Area Specific Approach against Hazardous and Exploitative Forms of Child Labour" (India).
17. Audit of HIV/AIDS Project IND/00/51M/USA: "Prevention in the world of work – A tripartite response" (India).

Annex 2

Statistics of follow up to internal audit recommendations as per management implementation reports (1999 and 2000)

	No. of recommendations	Percentage reported implemented
Re Audits in 1999		
Personal advance accounts managed at headquarters	10	100
Review of personal advance accounts administered in the field	30	100
Insurance administered by the Office of the Internal Administration (INTER) at headquarters	53	57
Examination of insurance in external offices	28	2
Regional Office for Arab States (ROAS) and the Multidisciplinary Advisory Team for Arab States (ARMAT) in Beirut, including results from desk review of February 2001	89	93
Technical Cooperation Project YEM/97/300 "Support to Yemen National Poverty Alleviation Programme"	12	100
Re Audits in 2000		
International Training Centre of the ILO in Turin – Income/accounts receivable	18	78
Technical cooperation project INS/98/M01/UKM "Workers' education assistance to Workers and their organizations in Indonesia"	17	100
Area Office in Jakarta	53	53
Area Office and the Southeast Asia and the Pacific Multidisciplinary Advisory Team (SEAPAT) in Manila	118	81
Technical cooperation project PHI/96/M04/NET "Support to management of ancestral domains of indigenous communities of the Philippines under INDISCO"	20	100
Regional Office for the Americas (ROAM) and the Andean Multidisciplinary Advisory Team (ETM) in Lima	91	96
Caribbean Office and Multidisciplinary Advisory Team (CAMAT) in Port-of-Spain	62	94