

International Labour Organization

Report of the External Auditor

Audit of the financial statements of
the International Labour Organization
for the Seventieth Financial Period
(2006–07)

International Labour Office Geneva

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National Audit Office

The National Audit Office (NAO), headed by the Comptroller and Auditor General of the United Kingdom, provides an external audit service to the International Labour Organization (ILO). The External Auditor has been appointed by the Governing Body in accordance with Chapter IX of the Financial Regulations. In addition to certifying the accounts of the ILO, he has authority under the Financial Regulations to report to the Governing Body on the economy, efficiency and effectiveness with which the ILO has used its resources.

The aim of the audit is to provide independent assurance to the Governing Body; to add value to ILO's financial management and governance; and to support the objectives of the ILO's work.

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2006–2007

External Auditor's Report

Audit of the financial statements of the International Labour Organization

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ANNEX A

FOLLOW UP TO AUDIT RECOMMENDATIONS MADE IN 2004–2005

ANNEX B

SCOPE AND APPROACH OF THE AUDIT

Executive summary

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| <ul style="list-style-type: none">■ Overall result of the audit – An unqualified audit opinion on the financial statements■ Recommendations to improve the financial management information provided to senior managers■ Commentary with recommendations to strengthen project management in the ILO■ A review of progress made with the implementation of the IRIS system and■ Identification of the priority areas of financial governance for the ILO to address for the future |
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Background

1. This Report covers a number of key aspects of the financial governance of the International Labour Organization (ILO). Following a summary of the results of our audit and analysis of the adequacy of the General Fund, we report on an examination we carried out on the processes used by ILO senior managers in discharging their responsibilities for corporate financial management. Our examination noted the importance that the ILO senior managers attach to good project management in support of the delivery of the ILO's objectives. We also reviewed how project managers deliver their outputs and outcomes. Our analysis of both the role of senior management in financial control and project management pointed to the fundamental importance played by the financial information system, IRIS. Accordingly we followed-up on our earlier audits of IRIS and reviewed again the state of progress in implementing the system across the ILO as a whole.
2. Finally, at the end of our tenure as ILO's external auditors, we have taken the opportunity to reflect on how the Organization is now situated in relation to its overall financial governance. Recognising the current initiatives for change and the challenges which the ILO faces, we have identified what we believe to be the priority areas of financial governance for the ILO to address going forward.

Overall results of the audit

3. We have audited the financial statements of the International Labour Organization in accordance with the Financial Regulations and in conformity with International Standards on Auditing. The audit examination revealed no weaknesses or errors which we considered material to the accuracy, completeness and validity of the financial statements; and the audit opinion confirmed that the financial statements present fairly, in all material respects, the financial position at 31 December 2007 and the results of operations and cash flows for the period then ended, in accordance with United Nations System Accounting Standards and the ILO's stated accounting policies.
4. The audited financial statements report a Regular Budget surplus of US\$ 0.7 million for the 2006–2007 biennium and the General Fund showed an increase of US\$ 113 million to stand at US\$ 285 million at 31 December 2007. Income and expenditure were subject to significant volatility, mostly due to circumstances outside the ILO's control. For example, 2006–2007 included the collection of a net US\$ 73 million in arrears of assessed contribution from previous biennia, and exceptionally high foreign exchange gains of US\$ 21 million.
5. The General Fund provides a safety mechanism which allows the ILO to continue operating despite unexpected fluctuations in income and expenditure. As there are major liabilities which are currently not recognised in the financial statements (such as

after-service health insurance liabilities, estimated at US\$ 415 million), the ILO needs to establish, with Member States, appropriate arrangements to ensure the future funding of these liabilities.

Financial management by senior managers

6. Effective financial management and financial governance are at the core of good management. These processes support good decision making, the effective running of the ILO to meet its objectives utilising the resources allocated; and are essential to maintain control and accountability. We recognise that the processes used by senior management have been developed by the ILO over the years and have been successful in meeting the strategic financial management needs of the ILO. But the ILO is in a period of change and challenge, arising from initiatives including the wider UN governance reform agenda, and there is no guarantee that the processes which have served the ILO well in the past will continue to be effective in the future.
7. Our recommendations for enhancing overall financial governance at the corporate level are that:
 - the Treasurer and Financial Comptroller should provide the SMT as a whole with regular corporate level financial information alongside information on performance and delivery. This will enable the SMT as a group to exercise an improved strategic overview of all ILO activities and deliveries, including the Regular Budget and extra-budgetary technical co-operation; and
 - significant financial risks and mitigating actions to manage them should be reported regularly to the SMT.

Project management

8. Projects undertaken for donors make a significant contribution to the success of the ILO and represent over one-third of ILO activity. We examined how projects are managed and the arrangements for monitoring progress and delivery. Our examination included interviews with ILO Directors in Headquarters and external offices, and with project managers responsible for delivery.
9. We identified three areas where project management could be made more consistent and enhanced. Project managers could improve performance by adopting and following the ILO's Technical Co-operation Manual. The ILO could assist project managers by providing universal access to corporate finance systems (including IRIS), which would avoid the existing reliance on duplicate and inefficient local financial records. Finally, senior ILO staff should adopt a more pro-active approach to managing project managers. Such improvements would build on some of the good practices we observed during our audit.

The Integrated Resource Information System (IRIS)

10. The development of IRIS began in 2002 and we have reviewed its implementation in each of our reports since then. In our previous report to the ILO we estimated that the costs to date of the development of the IRIS were US\$ 50 million. For 2006–2007, ILO estimated the direct costs of IRIS support and development at a further US\$ 15 million. But there is no separate budget provision for IRIS development and implementation for 2008–2009 and

later years. We are therefore unable to take a reliable view on the full cost of IRIS implementation to date.

11. With regard to the implementation of IRIS in Headquarters, we found that staff were generally complimentary about the system, the information it provided and the ease with which they could use it. Staff identified a number of areas where IRIS functionality could be enhanced to provide a better service to users and generate potential savings.
12. In relation to the external offices, IRIS has been implemented for one project in Jakarta, and one of the five Regional Offices has some access to IRIS. The ILO plans to deploy IRIS fully to one region during 2009, with later implementation throughout all the external offices. The rate of implementation results from the need to upgrade the Oracle ERP software to ensure a more efficient and effective operation of IRIS in external offices. Given the benefits which are now being realised from IRIS in Headquarters, we are disappointed with the slow implementation timetable which means that the full benefits of IRIS will not accrue to the ILO until 2010, or later.
13. Against this background, we consider that the ILO should re-examine the rationale and timetable for the implementation of IRIS to external offices. Alternative options for roll-out should be identified. Implementation decisions should only be made once the costs have been established and presented alongside the anticipated benefits, supported by an analysis of the risks of delivery.

Financial governance – Priority areas for the immediate future

14. We have, as usual, carried out a follow-up review of action taken in response to our audit recommendations made in the previous biennium, 2004–2005, and now set out in Annex A to this report. Over the term of our appointment as the ILO's external auditors, we have made recommendations designed to support the objectives of the ILO's work and improve and add value to ILO's financial management and governance. We have sought continually to provide a constructive audit scrutiny providing both assurance and benefit to the Governing Body.
15. In this final report of our appointment as ILO's external auditors, and against the background of the improvements in financial governance that the ILO has been pursuing, we reviewed where the ILO stands in terms of the challenges and demands facing it. We have identified the priority areas that the ILO needs to address in the immediate future:
 - upgrade of the computer system and roll-out of IRIS to the ILO;
 - the implementation of IPSAS from 2010;
 - improved executive decision making based on a more comprehensively informed Senior Management Team taking greater corporate responsibility for decisions;
 - the full implementation of results based management;
 - the establishment of a systematic corporate risk management framework; and
 - the successful operation of the Independent Oversight Advisory Committee and strengthening of the Office of Internal Audit and Oversight.
16. Each of these priority areas will require significant management input to succeed at a time when there will be many other calls on management time. This in itself emphasises the importance of the ILO establishing a corporate risk management framework to assist the Organization in focusing on the key risks to the delivery of the necessary reforms.

Detailed findings

Section 1: Financial results and the implementation of IPSAS

Covering:

- overall result of the audit – an unqualified audit opinion on the financial statements;
- the General Fund is available to support the ongoing operations of the ILO, and stood at US\$ 285 million at 31 December 2007;
- the move to IPSAS accounting in 2010 will have a significant impact on the presentation and content of the financial statements; and
- comments on the ILO's response to the risk of fraud.

Overall financial performance

17. The audited financial statements report a Regular Budget surplus of US\$ 0.7 million for the 2006–2007 biennium: equivalent to a delivery rate of over 99.8 per cent of expenditure. After other financial adjustments, the General Fund showed a net increase of US\$ 113 million over 2006–2007 compared to a decline of US\$ 75 million in 2004–2005, representing a very substantial improvement in the ILO's financial position. Our audit confirmed that the figures reported were fairly stated and we examined the main factors which contributed to this increase in the General Fund balance. We also reviewed the adequacy of the General Fund for the future operations of the ILO.

Accuracy of the reported figures

18. Our audit included an examination of the accuracy of transactions and the presentation of figures in the financial statements. Based on our audit we are satisfied that Statement I reports fairly the income and expenditure of the ILO for 2006–2007, and Statement II fairly states the assets, liabilities, reserves and fund balances at 31 December 2007 under the ILO's stated accounting policies. Based on our audit we are satisfied that the Statements present a sound basis for analysing the financial performance and position of the ILO.

Increase in the General Fund

19. The main factors contributing to the increase in the General Fund (Statement I) were:
- payment by Member States of arrears of assessed contributions from previous biennia, amounting to a net US\$ 73 million;
 - foreign exchange gains of US\$ 21 million;
 - bank interest and investment income of US\$ 8 million; and
 - other net adjustments of US\$ 11 million.
20. The financial performance of the ILO can be subject to some volatility arising from circumstances outside the ILO's direct control, such as the timing of the payment of

assessed contributions by Member States, exchange rate fluctuations and interest rates. The world economic slow-down and continuing realignment of currencies suggest that exposure to this volatility will remain over the coming biennium.

Adequacy of the General Fund

21. The accumulated balance in the General Fund stood at US\$ 285 million as at 31 December 2007. The main components of the General Fund are shown at Table 1. The Fund is sufficient to finance the Regular Budget of the ILO for almost a full year.

Table 1. Composition of the General Fund

	Balance at 31 December 2007 US\$ million
Regular Budget	32.2
Working Capital Fund	30.7
Income Adjustment Account	46.7
Capital Funds relating to Land and Buildings	93.0
Programme Support Fund	44.0
Terminal Benefits Fund	20.6
Other funds	17.8
Total	285.0

Source: External Audit analysis of financial statements, 2006–2007.

22. One of the main functions of the General Fund is to assist the ILO in managing the delivery of activities approved under the Regular Budget. In those financial periods when expenditure exceeds income, the General Fund is available to fund the deficit and ensure that the work of the ILO continues, such as when the operational deficit reported in 2004–2005 was partially met by borrowing US\$ 41 million from the General Fund. In 2006–2007, the fund was replenished to bring it back up to the level approved by the Governing Body. If the ILO is to avoid borrowing money, the General Fund needs to hold sufficient reserves to be able to fund deficits as they arise.
23. The General Fund also includes US\$ 93 million in capital funds relating to equity in land and buildings which cannot easily be liquidated. The Governing Body have approved the set aside of US\$ 29 million as a contribution to the cost of refurbishing the Headquarters building.
24. The General Fund includes US\$ 44 million of programme support funds. These represent contributions from donors for the management of extra-budgetary technical co-operation projects. These funds are used to partially finance the incremental central overhead costs incurred by the ILO in managing these projects.
25. We note that the ILO has significant liabilities which are currently not recognised in the statement of assets and liabilities and which are not covered by the General Fund. These include the after-service health insurance for staff and their families (US\$ 415 million), repatriation benefits (US\$ 30 million) and accumulated leave (US\$ 23 million).¹ The adoption of IPSAS (see further below) will bring these liabilities onto the balance sheet for

¹ Further details of these liabilities are provided in Notes 8 to 12 to the Financial Statements.

the first time, together with the recognition of certain assets such as vehicles, computers and equipment which are not yet included on the ILO balance sheet.

26. In summary, the reserves in the General Fund have been established to assist the ILO in the delivery of its programme. There needs to be a substantial balance if the safety mechanism, represented in part by the General Fund, is to work effectively. But it is for the ILO to establish, with Member States, appropriate arrangements to ensure the funding of liabilities.

The Adoption of International Public Sector Accounting Standards

27. In November 2006 the Programme, Finance and Administrative Committee approved the adoption of International Public Sector Accounting Standards (IPSAS) as a basis for the ILO's financial reporting, with a target date for implementation of 1 January 2010. This decision was endorsed by the Governing Body and is consistent with the adoption of IPSAS by the General Assembly of the United Nations and other UN Funds and Programmes. The benefits of IPSAS include helping to strengthen internal financial management, as well as providing more complete, informative and consistent reporting of financial matters in accounts. Greater transparency and consistency of expenditure treatment supports effective governance through enhanced reporting and accountability to the International Labour Conference.
28. The adoption of IPSAS will require major changes to the way in which the ILO manages financial resources, some of which will need to be reflected in the Financial Regulations. These changes will include:
- the introduction of annual financial reporting;
 - a move to full accruals accounting;
 - the recognition in operating costs and the balance sheet of the full cost of employee benefits such as after service health insurance, repatriation benefits and annual leave; and
 - recognition and depreciation of fixed assets such as buildings, and vehicles, furniture and equipment.
29. In the past year we have provided guidance to the ILO to assist with analysing in detail the specific changes necessary for the successful implementation of IPSAS. This process will need to be continued with the ILO's new external auditors.
30. IPSAS represents a major change initiative and getting the best from the implementation of IPSAS will require a multi-disciplinary approach and strong project discipline. We therefore endorse the decision² to provide specific funding for this initiative and the establishment of a project team reporting to the Treasurer and Financial Comptroller. Project management techniques such as a clear plan, well understood targets, agreed timelines and milestones, risk assessments and the delegated authority to act will all be essential if the benefits of the change to IPSAS are to be realised. The ILO will need to monitor project progress closely to ensure the planned implementation date of 1 January 2010 is achieved.

² Approval ref: GB.297/PFA/6.

Fraud, ex-gratia payments, amounts written off and contingent liabilities

Cases notified

31. The ILO notified us of ex-gratia payments totalling US\$ 139,058 (compared with US\$ 302,994 in 2004–2005), and writes-off against the Regular Budget of US\$ 173,378 (US\$ 886,031 in 2004–2005). ILO provided explanations for all the cases and we are satisfied that they have taken proper account of the full circumstances of each case.
32. The ILO reported ten cases of fraud, attempted fraud or presumed fraud (compared with 12 in 2004–2005), involving approximately US\$ 35,000 of ILO funds (US\$ 30,000 in 2004–2005). Two cases related to allegations about the letting of contracts, and two cases resulted from advances to consultants who absconded. We reviewed cases which we considered to be significant or indicative of novel threats to the ILO. We note the work undertaken by the Office of Internal Audit and Oversight in the investigation of allegations. Based on our review, we are satisfied with the action being taken by ILO management.
33. ILO informed my staff of 14 pending legal cases in respect of which a claim could arise against the Organization. The ILO has estimated the maximum potential liability in these cases to be approximately US\$ 1.9 million at 31 December 2007 (US\$ 0.4 million at 31 December 2005).
34. Contingent liabilities are disclosed in Notes 7 to 13 of the financial statements. We have examined the estimates of liability and are satisfied that they are fairly stated.

Fraud response and awareness training

35. During the biennium we undertook with the Treasurer and Financial Comptroller a structured review of the arrangements in the ILO for recognising and responding to allegations of fraud or other irregularities. This review was informed by our audit work in external offices, and reported cases of fraud, attempted fraud or presumed fraud. Based on our review we believe that the ILO could be more pro-active in sensitising staff to the risks of fraud. We note that in September 2007 the Director-General issued a circular on the ILO's Anti-Fraud Policy. This circular, addressed to all staff, confirmed the ILO's zero tolerance to fraud and highlighted the responsibilities of staff in this regard. This has been supplemented by training courses on fraud awareness for key financial staff.
36. Fraud prevention is aided by having a register of financial interests and we recommended the establishment of such as register in our previous audit.³ In April 2007 the ILO introduced a register of financial interests. The first returns from designated officials covered the period 1 April 2007 to 31 December 2007. 124 declarations were received. We reviewed the declarations and note that:
 - as at 14 April 2008, 18 were outstanding and being pursued by the Treasurer and Financial Comptroller;
 - of those received, eight disclosed a potential situation that could lead to a conflict of interest. We have confirmed with the Treasurer and Financial Comptroller that none of these potential conflicts posed a significant risk to the operations of the ILO.
37. We welcome the ILO's policy of zero tolerance to fraud, the training being given to key staff, and the establishment of a register of interests. These actions demonstrate the commitment of the ILO to transparent standards of conduct and ethical behaviour.

³ Report of the External Auditor 2004–2005: Recommendation 16.

Section 2: Financial management by senior managers

Audit review of the financial management processes used by senior managers at the ILO, in which we addressed:

- why financial management is important;
- how you recognise good financial management;
- what are the ILO's financial management processes; and
- recommendations to improve financial management.

Why is financial management important?

38. Effective financial management is at the core of good governance. These processes support decision making, the effective running of an organisation and the use of resources; and are essential to maintain control and accountability. The way in which an organisation collects, analyses and utilises financial management information when making decisions has a direct impact on the running of the organisation and the delivery of its objectives. Based on research within our client base of international and UN bodies, UK Government Departments and not-for-profit organisations, and from research on good practice elsewhere, we have developed a model which we believe captures the essence of good financial management practice at senior management level.
39. We used the model to evaluate the processes adopted currently by ILO's senior management. Our review included interviews with the Treasurer and Financial Comptroller and his staff, a number of Executive Directors and staff of the Office of the Director-General. We discussed our emerging findings and conclusions with the Director-General. The following paragraphs summarise the concepts that we have developed and our findings, conclusions and recommendations relating to the ILO.

How do you recognise good financial management?

40. The five concepts which we believe underpin good financial management practice for senior managers are:

Concept 1: The scope of the information provided clearly matches the requirements of senior management

Senior managers need to adopt a holistic approach to management and consider financial information alongside information on performance and delivery. The financial information should be integrated with the management of risk, and highlight key performance against the Medium Term Strategy.

Concept 2: All organisations have a minimum level of financial management information

Senior managers should receive appropriately aggregated information on income and expenditure to support their decision making.

Concept 3: Financial information is of sufficient quality to be trusted by senior managers

Information needs to be drawn from credible systems, and be current, accurate and consistent. Senior managers need to be able to trust the professional integrity of the Treasurer and Financial Comptroller and his team responsible for preparing and interpreting the financial information.

Concept 4: The presentation of financial management information can be easily understood by senior managers

Managers should specify the way in which routine and more specific financial information is presented, so as to ensure it can be quickly understood as a sound basis for decision making.

Concept 5: The financial information presented engages senior managers

The way in which information is presented, and the support given in interpreting that information, will affect the quality of decisions made. It is not sufficient for the financial numbers and statistics to be presented: they need to be analyzed and interpreted by knowledgeable people so that senior managers can rapidly assimilate them in support of their decision making.

41. These concepts represent the desirable generic attributes of good financial management appropriate to senior managers in international, public and not-for-profit organisations. While the concepts remain the same, their application and expression within organisations may differ for reasons such as the history of the organisation, its culture, size or the pressures under which it operates, and we acknowledge there will be diversity in management practice within these criteria.

What are the ILO's financial management processes?

42. The Director-General is responsible for all aspects of management of the ILO. He is supported by a Senior Management Team (the SMT) including the Executive Directors, Director of the Bureau of Programming and Management, Director of the Human Resources Department, Legal Advisor and the Treasurer and Financial Comptroller. The primary role of the SMT is to provide policy advice and guidance to the Director-General. Financial monitoring is not seen as a key focus of their work.
43. In matters of financial management, the Director-General is supported by the Treasurer and Financial Comptroller and a smaller group of SMT members with particular financial responsibilities, including the Executive Director of the Office of the Director-General, the Executive Director for Management and Administration and the Director of the Bureau of Programming and Management. While Executive Directors are responsible for their own departments, it is important that they also exercise shared responsibility for the corporate management of the ILO.
44. We found that the ILO has developed a strategic management reporting system based on the financial management information system, IRIS. On a monthly basis the Financial Services Department use the system to prepare a financial monitoring report for the Director-General and sub-group of the SMT, summarising and commenting on the income and expenditure position. The Treasurer and Financial Comptroller prepares additional consolidated reports and financial commentaries for the SMT and the financial monitoring

group when requested. In this work, the Treasurer and Financial Comptroller is assisted by staff having requisite financial qualifications and experience of the operations of the ILO.

45. Members of the SMT and the financial monitoring group told us that they were broadly satisfied with the financial management information available to them. They particularly liked the new IRIS-enabled system, with summarised financial information and a facility to “drill down” and disaggregate information as necessary. They trusted the information and analysis provided, and felt enabled to seek clarification from the Treasurer and Financial Comptroller as the need arose. An example of how financial monitoring worked in practice for the ILO during 2007 is summarised in Case Study 1.

Case Study 1: Monitoring of the Regular Budget

Monitoring of the Regular Budget

Each month the Treasurer and Financial Comptroller monitors financial resource utilisation against the Regular Budget. Resource utilisation includes cash spent and the amounts expected to be spent (commitments) up to the end of the biennium. Cash spent plus commitments is an indicator of possible final expenditure levels. In June 2007, three-quarters of the way through the biennium, forecasts indicated that ILO would utilize only 88 per cent of its approved budget by the end of the biennium. Based on these figures, the Treasurer and Financial Comptroller observed that if resource utilisation on the Regular Budget continued at its then present rate, there would be a significant underspend amounting to some US\$ 66 million at the biennium end.

This forecast underspend was brought to the attention of the Director-General who discussed it with the Senior Management Team. Based on these discussions additional guidance was provided to staff, to review expenditure plans.

By November 2007, with one month of the biennium remaining, some 89 per cent of the budget had been spent and a further 7 per cent committed to be spent by 31 December, indicating a likely outturn of 96 per cent of the budget for the biennium as a whole. At the biennium end, the actual underspend was US\$ 0.7 million, with total spend representing 99.8 per cent of the Regular Budget.

Based on lessons learnt from this experience, during the 2008–2009 biennium management intend to carry out more formal reviews of Regular Budget expenditure and provide feedback to programme managers at approximately 6-monthly intervals. These reviews are intended to assist managers in delivering their programmes of work with an optimal and planned use of resources.

Source: External Audit analysis of ILO documents.

Could the ILO improve its financial management processes?

46. The ILO has developed a senior management reporting system that has met the perceived needs over the years. But the environment in which the ILO operates is not static and changes are arising from a number of factors such as continuing zero-based growth in the Regular Budget, changing donor expectations on extra-budgetary technical co-operation work, and the wider UN governance reform agenda. Of particular interest are the development of results-based management, and the development of systems of corporate risk identification and management.
47. Against this developing agenda, the ILO need to consider whether existing financial management processes remain appropriate. We discussed with the Director-General and senior managers the impact of change and the five concepts underpinning effective senior management arrangements for financial management information. Based on our discussions and an analysis of available financial information in 2007, we identified four areas where change might usefully be made:

-
- (i) **At present financial management information is provided to the Director-General on a regular basis but to the SMT only on an exception basis.** Our own review of the reports which are prepared and our discussions with SMT members confirmed that there was no regular financial monitoring by the SMT at a strategic, corporate level, for example to monitor and confirm that income and expenditure are on target.

We also observed that financial monitoring currently has an emphasis on the Regular Budget, with less information being provided to the SMT on extra-budgetary technical co-operation and other funds managed by the ILO. This was considered appropriate in the past but the relative importance of extra-budgetary technical co-operation work compared to the Regular Budget (expenditures of US\$ 370 million and US\$ 594 million respectively in 2006–2007), and the growing appetite of donors for increased synergy between the Regular Budget and technical co-operation work, indicate that the SMT should be provided with a regular financial overview which draws together all ILO activities to inform strategic decision-making and support senior management’s responsibilities for financial stewardship.

- (ii) **Financial management information needs to be produced alongside performance information**, to enable senior managers to adopt a holistic approach to management and monitor key performance indicators against the Medium Term Strategy. This is not currently achieved by the ILO, where different systems are used for financial and performance monitoring, with little direct comparison being possible between the two. We understand that action is continuing to enhance the use of results-based management, which should assist in measuring and reporting achievements against associated costs.
- (iii) **There is an increasing recognition within the ILO of the need to develop procedures to manage the risks associated with major projects**, such as the roll-out of the IRIS system or the refurbishment of the Headquarters building in Geneva. We have previously expressed our view⁴ that this process should go further and be developed over time into a structured and systematic risk management system covering the ILO as a whole, particularly in relation to strategic or operational risks. Irrespective of the coverage of the risk system, we believe there is a need for the ILO to develop regular reports for the Director-General and the SMT, which will identify significant financial risks and the mitigating actions to control them, linked to improved accountability.
- (iv) **The present arrangements allow for the financial monitoring sub-group of SMT members to meet to review financial information only when the need arises.** This arrangement does not meet good practice criteria, nor does it reflect the importance of finance to the operations of the ILO. In our view, the arrangements for this sub-group of SMT members need to reflect greater management discipline, with agreed terms of reference, formal reporting to the wider SMT and the Director-General, and a higher profile for the role of the Treasurer in reporting on the financial health of the ILO.

48. The SMT members we interviewed told us that they consider the system meets their needs and are broadly satisfied with it. Judged against a wider perspective of good practice in the provision of financial management information to senior managers in international and not-for-profit organisations, however, we consider that there are areas where the financial management of the ILO by the SMT could be enhanced. Such improvements

⁴ External Audit Report on the 2004–2005 ILO Accounts: recommendation 14.

would provide the ILO with a stronger and more effective system to support decision making in the future.

49. We recognise that some of our proposals can be implemented in the short-term (such as improved regular and more comprehensive financial reporting covering all ILO activities); others depend on the development of supporting systems (such as the development of results-based management and structured risk management). Our recommendations should therefore be seen as a contribution to the wider development of governance within the ILO.

Recommendation 1

The ILO is facing a number of major changes and challenges which require increasingly effective financial management at SMT level. To strengthen financial management at strategic level **we recommend that:**

- (a) the Treasurer and Financial Comptroller should provide the SMT as a whole with regular corporate level information alongside information on performance and delivery. This will enable the SMT as a group to exercise an improved corporate overview of all ILO's activities and deliveries, including the Regular Budget and extra-budgetary technical co-operation; and
- (b) significant financial risks and mitigating actions to control them should be reported regularly to the SMT.

Section 3: Project management

Projects undertaken for donors make a significant contribution to the success of the ILO and represent over one third of ILO activity. We have examined the way in which these projects are managed, and have addressed:

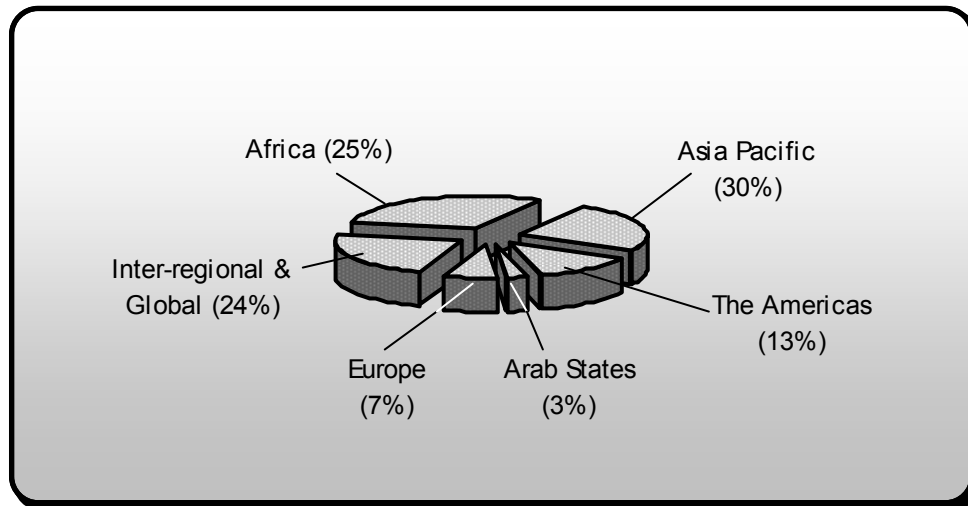
- the nature and importance of technical co-operation to the ILO;
- how projects are managed;
- the arrangements for monitoring progress and delivery; and
- how project management can be improved.

What are technical co-operation projects and how important are they to the ILO?

- 50.** A project is the main instrument used by the ILO in the delivery of extra-budgetary technical co-operation activities. It comprises interrelated and coordinated activities designed to achieve clearly defined objectives ranging from policy change to practical direct action. It contributes to solving a specific problem within a given budget and timeframe. In 2006–2007 the ILO spent some US\$ 370 million on 975 extra-budgetary technical co-operation projects.⁵ This represented over 36 per cent of the ILO’s total expenditure in the biennium. The value of these technical co-operation projects has grown from US\$ 254 million in 2002–2003 to US\$ 370 million in 2006–2007.
- 51.** Technical co-operation projects are commissioned by donors to address specific issues, with a geographical, country, regional or global focus. The terms of reference for each project are negotiated between the donor and the ILO and are increasingly taking account of the ILO’s country programmes. In this way the ILO can assist donors in directing resources to priority areas for the delivery of the “Decent Work” agenda.
- 52.** We analysed the projects undertaken by the ILO during 2006–2007. The data shows that some 24 percent of projects had an inter-regional or global focus, accounting for some US\$ 82 million in 2006–2007. The remaining projects were focused in individual countries around the world. Chart 1 shows the regional distribution of projects in 2006–2007.

⁵ The ILO also managed technical co-operation projects funded from the Regular Budget amounting to some US\$ 30 million in 2006–2007. We have not reviewed the management of these projects on this occasion.

Chart 1: Worldwide distribution of ILO technical co-operation projects



Source: Audit analysis of ILO financial records, 2006–2007

- 53.** Some 30 per cent of projects by value were focussed in the Asia and Pacific Region (including Afghanistan and Iran), and 25 per cent in Africa. There was a lower level of engagement in the Americas, Europe and the Arab States, reflecting the priorities set by donors.

How are projects managed?

- 54.** Technical cooperation is a collaborative effort involving ILO technical sectors, external offices, and management and support services units, each contributing within its own perspective, function and responsibility. To provide a single view of the policies, good practices, tools and procedures needed to manage extra-budgetary technical cooperation projects, the ILO have developed a Technical Co-operation Manual which was issued in July 2006 and replaced the Chief Technical Advisers Manual (issued in 1989). It sets out guidelines and good practices for all staff and project team members.
- 55.** We reviewed the technical co-operation Manual which is comprehensive, covering the whole of the project management cycle. The Manual provides advice on:
- project design;
 - project appraisal, and analytical review of the project design and formulation, prior to approval;
 - the approval process;
 - implementation and monitoring, including financial and performance monitoring; and
 - post-project appraisal.
- 56.** Fundamental to project management is the appointment of a Chief Technical Adviser, National Co-ordinator or ILO specialist to lead the project on a day-to-day basis. The project manager reports to a designated ILO responsible official. Technical support for projects is provided by ILO technical backstopping units, based either in Headquarters or in ILO external offices.

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- 57.** To assess the extent to which the project management structures developed by the ILO have been implemented, we examined a sample of projects covering all regions and Headquarters. Our audit included reviewing project documentation and interviewing project managers, either by direct interview or by way of a structured survey. We also met with staff in Financial Services, Programming and Management, Partnerships and Development Co-operation, Internal Audit and Oversight, and senior staff including members of the Senior Management Team. We found that:
- the ILO has generally been successful in recruiting high quality project managers to deliver complex projects often in difficult circumstances;
 - the Technical Co-operation Manual has been made available on the ILO intranet in English. There had been a delay in translating the Manual into Spanish and French, and project managers in Spanish-speaking and francophone countries told us that the delay in translation had hampered their work and the work of their staff;
 - although some project managers were not aware of the Technical Co-operation Manual, many others told us that they did not use the Manual on a regular basis as they found the proliferation of guidance and advice on the ILO intranet to be confusing. Generally, managers based in Geneva Headquarters were more conversant with the Manual and its requirements; and
 - those managers who used the Manual found it to be comprehensive, clear and relevant. There was also a suggestion that the ILO might develop a simplified version for partner organisations, such as Non-Governmental Organisations working in country.
- 58.** On training, we noted that project managers are recruited using a variety of criteria which, depending on the requirements of the individual project, may include technical suitability, previous experience and management skills. Project managers new to the ILO and recruited by the International Programme for the Elimination of Child Labour (IPEC) may now undergo a structured initial training programme providing a wide ranging introduction to the ILO, its processes and the project they have been recruited to manage. This represents an example of good practice by the ILO.
- 59.** Lack of training opportunities was a recurrent theme raised by Chief Technical Advisers during our audit. We were told that they would have welcomed induction training on first entry to the ILO, to cover financial processes, resource mobilisation and use of the ILO's computer systems.
- 60.** Effective knowledge management is an important factor in meeting development and training needs. We recognise the steps which have been taken by the ILO to strengthen their knowledge management processes through the Director-General's initiative. In the field, we found that professional and practice networks are becoming a feature of project management. For example, managers working on HIV-AIDS projects in some 20 countries had established a "Community Zero" website which acts as a conduit for sharing experiences.
- 61.** One common theme emerging from our review was the frustration experienced by project managers at the time taken to implement project changes, including budget revisions. Some saw this as a result of the ILO's processes, while others blamed project donors. All project managers recognised the need to meet donors' requirements but equally they drew attention to the need to strike a balance between the strategic objectives of the project and over-detailed administrative management by some donors of the delivery process.

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What are the arrangements for monitoring progress and delivery?

62. Monitoring and reporting provide an ongoing process to track project progress, take corrective action where necessary and keep project stakeholders informed on implementation and delivery. We have examined three key elements in this process: financial monitoring; the monitoring of implementation; and senior management oversight of projects.
63. Our examination of ILO's financial monitoring covered key issues on the reliability of financial information; access to financial information; and the design of the financial management information systems.
64. The financial management of projects is based on the standard ILO internal financial control regime, which is subject to our audit. Our audit of the financial records of projects did not identify any significant breakdowns in internal financial controls and did not identify any material errors in the reported financial information. This conclusion was consistent with the findings of reviews undertaken by Internal Audit and Oversight.

What are the arrangements for the financial monitoring of projects?

65. We found that most project managers had access to the ILO's main computerised accounting system which facilitated regular financial monitoring. In those cases where managers did not have such access (which may occur when the project is run from its own project office), their solution had been to establish local systems which operated in parallel with the main ILO systems. This involved duplicate entry of transactions – once into the local system and a second time into the ILO's corporate systems. This duplication is inefficient and represents poor value for money, and would be resolved if all project managers were provided with access to the ILO financial management systems. The ILO considers that there are costs associated with the implementation, support and training in providing smaller projects with access to the ILO's main accounting systems; and that alternative procedures used by smaller project locations are a cost effective solution, given the current operating environment.
66. Regarding the suitability of ILO's existing financial information system to support project managers, we have previously reported ⁶ on the need to replace the existing system with the Integrated Resource Information System (IRIS). Concerning access to IRIS, we found that project managers in Headquarters had access but – except for one project in Jakarta – no project run from ILO external offices enjoyed direct access. (The Regional Office for Asia and the Pacific has access to IRIS modules relating to technical cooperation and certain HR functions.) Later in this report, we review progress on the worldwide implementation of IRIS in greater detail.

⁶ External Audit Report to the ILO 2004–2005: paragraphs 4–8.

What are the arrangements for monitoring the implementation of projects?

67. As part of its project planning procedures, the ILO agrees with donors the arrangements for reporting progress and implementation of projects. This invariably includes bilateral project reviews between the ILO and the donor. These reviews are held at least annually and with some donors on a six-monthly basis.
68. In addition to providing for the formal reporting cycle, the Technical Co-operation Manual requires that measurable and verifiable indicators have to be defined for outcomes linked to project objectives. Indicators may cover management activities and inputs, outcomes arising during the period of the project, management outputs, and anticipated longer-term impacts. The measurement methodology and means of verification are also required to be specified.
69. Project managers told us that project reviews provided a clear focus for monitoring progress and implementation of projects. There was also a feeling that the project reviews were too infrequent and too formal to address the practical issues arising in day-to-day management of projects (see Case Study 2 below). Delivery against performance indicators was seen as a better guide for monitoring the progress of a project. However, our audit evidence suggests that, while most projects have established indicators, these have tended to focus on outputs rather than outcomes; and measurement methodologies could usefully be clarified. In some cases we came across projects which had no baseline, no clear targets or no calendar for activities and expected results. Such situations prevent the effective assessment of whether projects are on track.

Case Study 2: Lack of information in a project's progress report – An example

We found that progress reports may not always reflect the full position of a project. An example of this arose in a project which aimed to train local educators who would then cascade their training to a target population. A progress report indicated activities performed so far and the number of peer educators trained. A field visit to this project by ILO staff from central services had revealed that, while this number was correct, the level of knowledge of the educators and their ability to transfer their knowledge was insufficient to successfully implement the next stage of the project, which involved the training of other people. This key factor, which had the potential to undermine the success and achievement of the whole project, had not been referred to in the progress reporting.

Source: External Audit interview with project and senior staff.

What are the arrangements for senior management oversight of projects?

70. The Governing Body takes an active interest in technical co-operation work and has established a committee to oversee the work. The committee is provided with a comprehensive report covering resources and activities. The information provided to the committee is drawn from all operational areas of the ILO.
71. The committee's work is strategic in nature and undertaken at an aggregated or summarised level. The ILO's current policy is, where practicable, to decentralise primary responsibility for the delivery of technical co-operation projects to the external offices. Technical units and support services at Headquarters continue to be responsible for providing the support required for the effective design and implementation of activities, as laid down in the project documents. At external office level, the Technical Co-operation

Manual provides guidance at the project planning stage but is not prescriptive regarding the arrangements to be used for the oversight and management of ongoing projects.

72. Our enquiries at project and external offices identified varying practices in the way in which Directors sought to monitor the delivery of projects allocated to their offices. Some had established detailed mechanisms for regular monitoring and oversight; others relied on the regular reporting cycle to facilitate the monitoring of process. In all cases, senior staff told us that they were available to provide advice and support to project managers as necessary. The recommendations of the recent review of the ILO's field structure may have an impact on the management of projects, but this aspect was not a major theme of that review.
73. At corporate level, improving the rate of delivery is the first objective in the ILO's strategy for technical co-operation projects. The ILO has adopted a results based approach and the report on implementation of the Director-General to the Governing Body ⁷ presents results for each strategic objective. This report draws together technical co-operation projects and Regular Budget activities and illustrates a holistic approach in analysing achievements and resources consumed.

Can project management be improved?

74. We have identified three areas where the ILO could usefully improve its procedures, or ensure that established policies and procedures are better implemented.
75. The ILO has developed the Technical Co-operation Manual which sets out guidelines and good practices for all staff and project team members; and the Manual is comprehensive, covering the whole of the project management cycle. Our audit findings, however, showed that the Manual is not universally adopted by project managers and their staff, sometimes out of ignorance that the Manual exists. This leads to diversity of practice and the risk of failing to adhere to ILO policy or procedural requirements.
76. ILO's procedures for the financial monitoring of projects are well established but in those cases where project managers do not enjoy direct access to the ILO's computerised financial management systems, there is duplication of effort as managers maintain their own financial records. Project managers with access to the new IRIS system have welcomed it but we have concerns concerning the slow pace at which IRIS will be rolled-out to external offices worldwide, and the continuing need for all project managers to have access to IRIS.
77. Our analysis of project monitoring and oversight identified some good practice. But we found no clear or comprehensive arrangements for management oversight of project managers to ensure that problems, when they arose, were quickly recognised and addressed. It is not, in our opinion, sufficient to rely on the project manager to seek guidance if and when problems occur. There needs to be a more proactive management regime across the ILO as a whole, which would be consistent with the good practice we observed in a number of ILO country offices that we visited.

⁷ ILO Programme Implementation 2006–2007: GB.301/PFA/2, March 2008

Recommendation 2

To improve the quality and effectiveness of project management arrangements, **we recommend that:**

- (a) the ILO takes steps to ensure that all project managers adopt and follow the Technical Co-operation Manual, with appropriate training as necessary;
- (b) all project managers be provided with access to the ILO's financial management systems to avoid reliance on duplicate and inefficient local financial records; and
- (c) senior ILO officials adopt a more pro-active approach to managing project managers, consistent with existing good practice. (Such monitoring should include ensuring that project managers adopt the Manual and are provided with access to the financial management systems.)

Section 4: The Integrated Resource Information System (IRIS)

IRIS has a key role to play in the management of the ILO. Following on from our Report on the 2004–2005 Financial Statements, we examined progress made by the ILO with the implementation of IRIS, in order to assess:

- what IRIS has cost;
- whether IRIS meets the needs of staff at Headquarters;
- what progress has been made in the roll-out of IRIS to the field;
- whether IRIS was operating effectively as a project management tool in the field; and
- what lessons can be learned from the continuing introduction of IRIS.

What is IRIS and how much has it cost?

- 78.** IRIS is a fully integrated system linking key business processes such as human resources and procurement to the underlying financial systems. The development of IRIS commenced in 2002 and we have reviewed its implementation in each of our reports since then. We now provide an update on progress.
- 79.** We have estimated the cost of IRIS up to 31 December 2005 at US\$ 50 million,⁸ not including time spent by regular staff on the project. Since 2006, the costs of IRIS have been fully integrated into the operational programmes of the ILO and the budget for 2006–2007 amounted to some US\$ 15 million.⁹ The implementation of IRIS for all ILO Regional Offices is now planned by the end of 2009¹⁰ but there is no associated budget.
- 80.** The ILO told us that there was no separate budget for IRIS implementation due to uncertainty arising from the timing and coverage of the roll-out, and technological change. Costs incurred would be met from the budgets of the appropriate business unit as they were incurred.
- 81.** Against this background, we are unable to take a reliable view on the total cost of IRIS implementation to date; nor are we able to gauge the cost of roll-out to Regional Offices and all external offices. Without costed information, the ILO cannot assess the cost and benefits that might arise from the various options for the implementation of IRIS: for example the extension of coverage from Regional Offices to include all external offices. We consider the failure to present financial information alongside the anticipated benefits arising from IRIS to be a significant weakness in the decision making processes of the ILO.

⁸ Report of the External Auditor 2004–2005: paragraph 5.

⁹ GB.298/PFA/ICTS/2.

¹⁰ March 2007 Governing Body.

Does IRIS meet the needs of staff at headquarters?

82. IRIS was implemented in ILO Headquarters in April 2005 when it replaced existing legacy systems. We carried out a review of users of the IRIS system, including senior management, technical staff in Finance and line management, including project managers. Staff invariably supported the introduction of IRIS and those with direct experience compared the new system positively to the legacy systems it replaced. Staff were particularly pleased that they could interrogate the system and extract information immediately at the desk-top. One individual spoke about the intuitive nature of the layout and interrogation process in IRIS. The flexibility to compare data from various sources was also singled out for positive comment.
83. The Financial Services Department told us that they welcomed the introduction of IRIS in Headquarters as it had provided them with the opportunity to improve the efficiency of their business processes. This is consistent with the recommendation we made as part our 2004–2005 audit report.¹¹ Finance staff could now increase the level of integration of operations, and reduce the manual intervention necessary to complete transactions.

What progress has been made in the roll-out of IRIS to the field?

84. The IRIS project has always been intended to cover Headquarters and the ILO's external offices, and phased implementation was an integral part of the original project plan. ILO deployed a strategic management module to external offices in 2005 and in January 2006 an indicative timetable for the roll-out of IRIS to external offices was published which envisaged a pilot project from September 2006 to March 2007, followed by full roll-out being completed by December 2007. In March 2007, the Governing Body approved access to IRIS for all ILO Regional Offices by the end of 2009.
85. As the pilot project was being implemented, the ILO recognised that the efficiency and effectiveness of IRIS would be enhanced if the Oracle ERP software was to be upgraded. The ILO considered that it would represent an unnecessary risk to upgrade the system and implement IRIS in external offices at the same time. There were also potential changes arising from the review of the field structure and UN reform initiatives more generally. It was therefore decided to reschedule the IRIS roll-out to follow the upgrade of IRIS, scheduled for completion in mid-2008, with deployment of IRIS to one region during 2009. There is no current target date for the implementation of IRIS in all external offices.
86. It is clear that there remain significant risks in the systems upgrade and roll-out of IRIS to the field within the announced timetable. These risks are being managed by the IRIS Governance Board through the development of a risk register. The most significant risks have been identified as resources, connectivity, training and support, and change management.
87. We welcome the development of a project risk register for the project is an important development in the governance arrangements of the ILO, entirely in line with our earlier recommendations.¹² We trust that the ILO will view the success of this initiative as the basis for a wider establishment of risk profiles and systematic risk management for all major projects in the future.

¹¹ Report of the External Auditor 2004–2005: recommendation 9.

¹² Report of the External Auditor 2004–2005: recommendation 14.

Is IRIS operating effectively as a project management tool in the field?

88. As a pre-pilot exercise, the IRIS system was installed in the ILO office in Jakarta in July 2007 after a four-week training period, where it is used to manage a single technical co-operation project. Without exception, staff in Jakarta working on the project told us that they were enthusiastic about IRIS. But in keeping with the pre-pilot nature of the exercise, the staff had identified issues arising from the practical implementation of IRIS. These had been recorded together with details as to how the issues had been resolved.
89. We observed that the project had required the installation of a dedicated communications link between Jakarta and Europe. This link cost some US\$ 3,000 a month to operate and in this instance the donor underwrote a portion of the cost. More generally, the ILO is aware of the costs of communications for IRIS and recognise communications as a major project risk. Improving communications will benefit IRIS as well as the wider operations of the ILO.

What lessons can be learned from the continuing introduction of IRIS?

90. The implementation of IRIS is proving to be a complex undertaking for the ILO and the main Oracle computer system must first be upgraded before IRIS can be implemented effectively in the field. The establishment of a risk register to assist with the management of the IRIS implementation project is a positive development, from which all other major projects would all benefit.
91. As regard the costs of IRIS, we accept that there comes a point when projects cease and systems are handed over for implementation and continuing maintenance. In our opinion this point has not yet been reached and the costs incurred for computer hardware, software, installation, training and enhanced communications should continue to be carefully tracked. Without tracking such costs it is impossible to assess the value for money achieved from this major charge on the ILO's resources.
92. In conclusion, IRIS has a fundamental role to play in the operational management of the ILO and it has the capacity to provide management at all levels with information and analysis to support operations, but benefits will only be realised when managers use the information to drive improvements in the delivery of the ILO's programmes and objectives. Against this background we are disappointed with slow implementation timetable which means that the full benefits of IRIS will not accrue to the ILO until 2010, or later.

Recommendation 3

We recommend that ILO re-examine the rationale and timetable for the implementation of IRIS to external offices in the light of the recommendations of the Field Structure review, wider UN reforms, and experience in operating IRIS in Jakarta. Alternative options for roll-out should be identified. The decision for full implementation should only be made once the costs have been presented alongside the anticipated benefits supported by an analysis of the risks of delivery. Subsequently, project cost, benefits and risks should be regularly monitored.

Section 5: Audit impact

As this is the final report of our tenure as ILO's external auditors, we have taken the opportunity to reflect on the main issues now facing the ILO in further developing its governance arrangements.

There are significant pressures on the ILO to deliver greater value and benefit in an environment where resources are limited and the Organization is under intense scrutiny. Strong corporate governance and financial management are at the core of good management. They are essential to the efficient running of an organisation and in maximising the efficient effective use of resources to meet the Organization's objectives and to meet the increasing expectations of stakeholders in terms of transparency and accountability. We have looked at how well the ILO is placed now to meet those demands.

What are the priority areas for the development of corporate governance and financial management in the ILO?

93. The ILO is in a period of significant change and challenge, requiring responses which will affect the way in which the ILO works. A number of external factors impose challenge on the ILO, including the wider UN governance reform agenda; the UN "Delivery as One" programme initiative; the continuing and cumulative effects of zero-growth Regular Budgets; and changing expectations over the work that the ILO delivers. Internal reforms already under way include the implementation of IRIS; the increasing emphasis on the "Decent Work" country programmes; changing regional priorities; the development and embedding of knowledge management and knowledge sharing; and the development of staff capacity to deliver the new agenda.
94. Meeting these challenges requires structural reforms such as an improved focus on outcomes against objectives as the basis to measure achievement. This should be supported by an improved financial management infrastructure, though the full implementation of IRIS). It is not sufficient simply to have sophisticated financial management systems: the ILO also needs enhanced governance processes to use information as a driver for good decision making.
95. In relation to financial management infrastructure, the ILO needs to complete the implementation of IRIS, to ensure the availability of relevant and timely financial management information geared to its needs. The adoption of IPSAS will also be important in supporting improved financial reporting and decision making at the Governing Body level.
96. To maximise the benefits achievable from improvements in infrastructure, the ILO will require changes in the way in which finances are managed. The more important structural reforms include:
 - improved executive decision making – informed by better quality and timely information which draws together costs and quantified outcomes – with the Senior Management Team taking greater corporate responsibility for those decisions;
 - full implementation of Results Based Management, to become part of the embedded management processes of the ILO, and with a shift in the management of delivery from expenditure and outputs to an emphasis on outcomes and achievements;

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- the development of a risk management strategy and framework which forms an integral part of the operational processes rather than an overlay of additional review procedures; and
 - more effective governance processes to improve the accountability of the executive to the Governing Body. The new Independent Oversight Advisory Committee will have a key role to play in this process and will need to be supported by a significantly strengthened internal audit function with the resources to confirm that line managers are adopting best practice.

97. Each of these priority areas will require significant management input to achieve success at a time when there are many other calls on management time. This challenge in itself emphasises the importance of the ILO establishing an effective, systematic corporate risk management framework. The identification of the significant risks to the delivery of the necessary reforms will assist ILO in focusing at top level on key decision areas, delegating less critical decisions to appropriate levels of management.

Improved financial governance for the ILO requires action on two levels: implementation of the appropriate financial management infrastructure as a framework against which structural reforms will be able to succeed; and the structural reforms themselves.

Recommendation 4

We therefore recommend completion of the necessary financial management framework, through:

- early implementation of IRIS for the ILO as a whole; and
- the adoption of IPSAS.

Recommendation 5

We recommend that ILO address the following structural reforms in the immediate future:

- improved executive decision making based on a more comprehensively informed Senior Management Team taking greater corporate responsibility for decisions;
- full embedding of Results Based Management in operational management processes;
- development of a systematic risk management strategy keyed into business processes; and
- continued strengthening of the governance and oversight processes which ensure the accountability of the executive to the Governing Body.

Acknowledgement

98. We wish to record our appreciation for the co-operation and assistance provided by the Director-General and his staff generally; and in particular to the Treasurer and Financial Comptroller and finance staff, who bear the brunt of dealing with many of our audit enquiries.

T.J. Burr
Comptroller and Auditor General, United Kingdom
External Auditor

Annex A

Follow up to audit recommendations made in 2004–2005

Our report on the Financial Statements for 2004–2005 included 31 recommendations to the ILO for improvement in financial control and governance. The ILO has responded to our recommendations¹³ and our commentary on the responses, and implementation is summarised in the following table.

Recommendation	Response from ILO management	External audit comment
Implementation of the Integrated Resource Information System (IRIS)		
<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 ILO 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>We have noted in our report the assessments which have been undertaken of the implementation of IRIS. We also support the continued involvement of the ICTS with the ongoing roll-out of IRIS and the upgrade of the main computer system.</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>We have noted in our report that we consider the costs of IRIS roll-out should separately budgeted and controlled. For other new projects, a comprehensive costing should be provided to the ICTS as described.</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>We welcome the adoption of COBIT and ITIL by the ILO.</p>

¹³ Follow-up to the report of the External Auditor on the accounts for 2004–05: GB.298/PFA/5.

Recommendation	Response from ILO management	External audit comment
<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>We note the procedures being utilised by the ILO to test systems prior to go-live. We also recognise that the rigorous implementation of COBIT also addresses this issue of user acceptance testing.</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). 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>We note the steps taken by the ILO to strengthen the arrangements for training. But our review of the implementation of IRIS in Headquarters, showed that some staff had not received IRIS specific training and we have recommended that this issue is addressed.</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>We note the progress made by the ILO on this recommendation.</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>Following negotiations with the external IRIS infrastructure provider annual ISO assurance reports covering Managed Operations and Information Security are furnished to the ILO.</p>	<p>We welcome the action taken by the ILO on this recommendation.</p>

Recommendation	Response from ILO management	External audit comment
<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 2008.</p>	<p>We note the progress made by the ILO and urge the ILO to bring this matter to an early conclusion.</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>We note the action taken by the ILO to implement this recommendation.</p> <p>Given the central nature of IRIS to the business processes of the ILO, the business continuity plan should be subject to annual testing to confirm that the procedures operate effectively.</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> <p>With almost 70 percent of expenditure being staff related, an audit of the IRIS payroll system has been completed. The audit concluded that the payroll process is controlled effectively.</p>	<p>We note the action taken to implement this recommendation</p>

Recommendation	Response from ILO management	External audit comment
<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 external offices, the ILO plans to conduct formal post-implementation reviews.</p>	<p>We note the response of the ILO to this recommendation and comment on the post-project assessment in the main body of this report.</p> <p>As regards post-implementation reviews of the use of IRIS in external offices, we have noted that such reviews have not yet been undertaken.</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>We note the actions taken by the ILO to implement our recommendations and identify business process re-engineering opportunities that will save costs and time for the ILO.</p>
<p>Review of the ILO's governance arrangements</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>At its November 2007 session the Governing Body approved terms of reference for an Independent Oversight Advisory Committee. In March 2008, five members were appointed to this Committee who in accordance with the terms of reference, will meet in September 2008 to commence their work. (GB.298/PFA/8).</p>	<p>We strongly support and endorse the action taken by the ILO in establishing an Independent Oversight Advisory Committee.</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>We support the action being taken unilaterally and in conjunction with other UN Bodies to develop a corporate risk register for the ILO.</p>

Recommendation	Response from ILO management	External audit comment
<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>We welcome the commitment and action taken by the ILO to move onto the IPSAS accounting standards, in line with other UN Bodies.</p> <p>We have provided the ILO with guidance regarding the implementation of IPSAS and the changes that will be required to the format and content of the financial statements.</p>
<p>Recommendation 16: We recommend that the ILO finalise 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. . An annual declaration of financial interests by senior staff and those in key positions was implemented in April 2007.</p>	<p>We welcome the creation of a register of interests and we have reviewed returns as part of our audit.</p>
Internal audit		
<p>Recommendation 17: We recommend that consideration be given to ensuring closer liaison between the evaluation and internal audit functions.</p>	<p>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.</p> <p>During 2007, IAO and the Evaluation unit cooperated closely on an investigation including the provision of resources.</p>	<p>We note the action taken by the ILO to implement this recommendation.</p>
<p>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.</p>	<p>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.</p> <p>IAO has concluded that a full-time IT auditor would not be required at this stage. IAO will meet the need for IT audit skills through outsourcing to specialised consultants on an as needed basis.</p> <p>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.</p>	<p>We welcome the action taken to strengthen the IAO with the provision of additional resources.</p>

Recommendation	Response from ILO management	External audit comment
<p>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.</p>	<p>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.</p> <p>The 2008–2009 audit plan has been prepared based on a risk assessment conducted by IAO and has been submitted to the Director-General for approval.</p>	<p>See item 18 above.</p>
<p>Recommendation 20: We recommend that the IAO take forward the planned independent quality assurance review and consider any emerging recommendations for improvement.</p>	<p>A quality assurance review was conducted by external specialists in 2007. The Review concluded that IAO is in compliance with the Institute of Internal Audit Standards.</p>	<p>The review has now been completed and the results reported to the Governing Body as part of the Chief Internal Auditor's annual report. The results of the review have informed the decisions made by the Director-General regarding the level of resources being made available to IAO for 2008–09 and the associated work programme.</p>
<p>External collaborator and short-term contracts</p>		
<p>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.</p>	<p>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 in the context of its review of contracts policy in the ILO.</p>	<p>We note the actions taken by the ILO to implement our recommendation, and the guidance issued to staff in 2006 and 2007.</p>
<p>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.</p>	<p>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.</p> <p>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</p>	<p>We note the action that the ILO has taken to examine in depth the potential for implementing our recommendation.</p>

Recommendation	Response from ILO management	External audit comment
	<p>are generally satisfied with this system of call-off contracts.</p> <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>Recommendation 23: We recommend that the ILO should establish consistent criteria for evaluating the performance of external collaborators.</p>	<p>The Office is in consultations with the External Auditor on best practices used by international organizations with a view to providing appropriate guidance to managers and staff.</p>	<p>We have supported the ILO in their review and are pleased to note the progress that has been made.</p>
<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>	<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>	<p>We note the action being taken by the ILO to implement this recommendation.</p>
<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>	<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>	<p>We note the progress made by the ILO in implementing this recommendation and the use made of the functionalities of IRIS.</p>
<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>	<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>	<p>As above – recommendation 24.</p>
<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>	<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. 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>	<p>We welcome the action taken by the ILO to upgrade the IRIS system to provide this functionality.</p>

Recommendation	Response from ILO management	External audit comment
Financial matters		
<p>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>	<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>	<p>We have not seen any evidence to suggest that the major issues regarding the control over bank accounts and reconciliations have recurred in 2006–2007.</p>
<p>Recommendation 29: We recommend that management develop an appropriate procedure to enable external offices to reconcile local accounting records to the main general ledger.</p>	<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 external offices and can be accessed remotely by external office staff.</p>	<p>We look to IRIS for the long-term solution to this issue as the full implementation of IRIS in external offices will eliminate the need for these reconciliations and checks to be undertaken.</p>
<p>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.</p>	<p>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.</p> <p>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.</p>	<p>We have noted that while verification continues to be a key internal financial control of the ILO, risk based plans for verification work have not invariably been completed.</p> <p>The ILO need to continue to use this control and ensure that verification plans for Headquarters and the Regions are implemented, and any issues arising from verification work are followed-up and resolved promptly.</p>
<p>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.</p>	<p>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.</p> <p>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.</p>	<p>We note that at 31 December 2007 there remained over US\$ 1 million in suspense at external offices.</p> <p>Suspense accounts remain a high risk area of concern to us, and the ILO need to analyse the balances and bring to account amounts as soon as practicable.</p>

Annex B

Scope and approach of the audit

Audit scope

The audit covered the examination of the financial statements of the International Labour Organization (ILO) for the two-year financial period ended 31 December 2007. The audit was conducted in accordance with the Financial Regulations.

Audit objectives

The main purpose of the financial audit was to enable us to form an opinion as to whether expenditure recorded in the financial statements for 2006–2007 had been incurred for the purposes approved by the International Labour Conference and Governing Body; whether income and expenditure were properly classified and recorded in accordance with the Financial Regulations and Financial Rules made thereunder; and whether the financial statements fairly presented the financial position at 31 December 2007.

Audit standards

Our audit of the ILO's financial statements was carried out in accordance with International Standards on Auditing. The International Standards on Auditing were adopted by the United Nations Board of External Auditors in December 2007 in succession to the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialised Agencies and the International Atomic Energy Agency. The International Standards on Auditing require us to plan the audit so as to obtain reasonable assurance that the ILO's financial statements are free of material misstatements. The ILO's management are responsible for preparing the financial statements and we are responsible for expressing an opinion on them, based on evidence collected in the audit.

Audit approach

The audit was performed on a test basis, in which all areas of the financial statements were subject to substantive testing of the transactions recorded to the extent that we considered necessary. We also undertook an examination to ensure that the financial statements accurately reflected the ILO's accounting records and were fairly presented.

The audit included a general review of the ILO's accounting procedures; a broad assessment of internal financial controls; and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. Our audit procedures are designed primarily for the purpose of forming an audit opinion. Consequently, the work did not involve a detailed review of all aspects of the ILO's budgetary and financial information systems and the results of the audit should not be regarded as a comprehensive statement on them.

During the biennium we carried out financial audit work at the ILO Headquarters and at external offices in each of the ILO's Regions: Asia, Africa, the Arab States, the Americas and Europe. We prepared separate reports to management on each of our field audits together with, as necessary, recommendations to improve internal financial control in the ILO.