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Programme, Financial and Administrative Section

PFA

FOR INFORMATION

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External audit plan

Summary: In this document, the Director-General transmits to the Governing Body the External Auditor's summary of the annual audit plan for the year ending 31 December 2019, for information.

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Related documents: GB.335/PFA/INF/2.

Summary of the annual audit plan for the year ending 31 December 2019

Our mandate

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

Overall audit objectives

2. Our overall audit objectives are:
 - to express an independent opinion as to whether:
 - the financial statements present fairly, in all material respects, the financial position of the ILO as at 31 December 2019, and the results of its financial performance, its cash flows and the comparisons of budget to actual amounts for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS);
 - the financial statements have been prepared in accordance with the stated accounting policies;
 - the accounting principles have been applied on a basis consistent with that of the preceding financial period; and
 - the transactions that have come to our notice during the audit of the financial statements have, in all significant respects, been made in compliance with the Financial Regulations and legislative authority; and
 - to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and in general, the administration and management of the Organization (article 36 of the Financial Regulations).

Audit approach and methodology

3. In line with the requirements of the International Standards on Auditing, we will apply a risk-based approach in the audit of the ILO's financial statements and operational management.
4. The risk-based approach that will be adopted in the audit of the financial statements requires the conduct of risk assessments of material misstatements at the financial statement and assertion levels based on an appropriate understanding of the Organization and its environment including its internal control.

5. In applying the audit approach and methodology, we primarily assess the risk maturity of the Organization by obtaining an overview of the extent to which the Governing Body and ILO management determine, assess, manage and monitor risks.
6. This is followed by a periodic audit planning exercise, identifying and prioritizing all those areas on which the stakeholders require objective assurance, including the risk management processes, the management of key risks, and the recording and reporting of risks, as well as assurance on the mitigation of individual or groups of risks.
7. The last phase of our audit methodology is the communication of the value delivered by our audit, which involves the discussion of the audit findings and conclusion with ILO management for action thereon.

Risk perspectives and audit objectives

8. During our previous audit engagements, we identified a number of relevant factors and changes within the ILO operations that we considered in our audit trajectories. We have planned to input this information into our interim audit work, our field audits and subsequently the year-end audit for 2019. These factors and changes are:
 - **Financial reporting and critical processes.** The risk perspectives will include: completeness of financial information; judgements and estimates; cut-off procedures; consolidation; capitalization; disclosures; and IPSAS updates. The audit objective is to obtain reasonable assurance that the financial statements are free of material misstatements, are fairly presented and include adequate disclosures.
 - **Human resources management.** The risk perspectives include the review of human resources management – the policies and processes and their corresponding implementation, based on the premise that human resources processes are dynamic and must continually be redirected and revitalized to remain responsive to the ever-changing needs of the Organization. The objective of the audit is:
 - (a) to identify the key risks associated with human resources management at the ILO, and consider the consistency and adequacy of strategies implemented to manage these risks;
 - (b) to assess the ILO’s human resources strategies and performance and identify areas where the ILO could make improvements; and
 - (c) to undertake a current state assessment of the extent of implementation of the ILO’s human resources processes, policies and strategies and identify any factors that have impeded their implementation.
 - **Operations of regional offices and of decent work technical support teams and country offices.** The risk perspectives include the review of the operations and controls in the selected offices. The objective of the review is to assess: the control processes within the information system (enterprise resource planning) and data migration and conversion processes; project implementation, monitoring and reporting; and the internal and management controls on critical business processes (procurement and long-term agreement, asset and inventory management), programmes and projects, and Decent Work Country Programmes. It will also include the review of trial balances.

Audit materiality

9. Our audit requires us to determine a specific amount of materiality for each engagement. This amount is also used to evaluate the significance of any uncorrected misstatements (past adjustments and reclassifications) noted during the audit.
10. We have set our preliminary materiality at approximately 2 per cent of the average total expenses of the ILO for the last five years, or US\$14.7 million.
11. We considered the following factors in establishing materiality: the needs of the Organization; and the needs of other contributors, representatives of governments, employers and workers and other multilateral agencies. This is consistent with the materiality level used for the 2018 financial statement audit. However, the quantitative measure of materiality is not the only factor considered in evaluating misstatements. Relatively small misstatements may have material effect on the financial statements because of qualitative considerations.

Our deliverables

12. At the conclusion of the audit, we will provide the following reports to the Governing Body:
 - **Independent Auditor's report.** This is a signed opinion on the financial statements as at 31 December 2019.
 - **Report of the External Auditor to the Governing Body.** This will contain any significant findings with respect to the efficiency of the financial procedures, the accounting system, the financial controls and, in general, the administration and management of the ILO, and all matters referred to in Chapter IX, article 36, of the Financial Regulations. In it, we will provide an update on prior years' observations and the implementation of recommendations. It will also contain the current year's observations and recommendations.
13. In addition, we will provide management with the following reports during the course of our audit:
 - **Management letters.** These are derivative communications that identify opportunities for changes in procedures that in our view would improve systems of internal control, streamline operations or enhance financial reporting practices.
 - **Audit observation memorandums.** These are written communications to the staff concerned, informing them of any perceived deficiencies observed in the audit of accounts, operations or transactions.

Planned field work for 2019

14. In line with our risk-based audit methodology, our planned work for the 2019 audit will consist of the activities described in the table below.

Offices to be visited	Audit areas/activities
ILO headquarters	<p>Interim financial audit: Review of compliance with the accounting and reporting processes pertaining to all accounts that constitute the financial statements; perform substantive testing covering the period from January to August 2019.</p> <p>Operations audit: Review of the efficiency and effectiveness of human resources management with focus on the following aspects of human resources that have an impact on the operations of the ILO as a United Nations organization:</p> <ul style="list-style-type: none"> - recruitment and selection; - structure and reporting arrangements; - mobility; - staff development; - performance management; - gender parity; and - geographical representation.
<p>ILO Regional Office for Latin America and the Caribbean (RO-Lima) DWT/CO-Lima DWT/CO-San Jose DWT/CO-Cairo</p>	<p>Operations audit</p>
ILO headquarters	<p>Year-end financial audit: Review of compliance with the accounting and reporting processes pertaining to Statements I–V of the consolidated financial statements and their disclosures with the end view of expressing an audit opinion on the financial statements taken as a whole; test of balances and substantive test of transactions for 2019; follow-up of previous external audit recommendations.</p>

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

Audit management

16. The management of our audits is based on our established operating philosophy of aligning our audit process more closely with the needs of our international clients to improve their governance and provide the users of their financial statements with a higher level of assurance that our client’s processes are effective as to their design and operation.
17. Effective staffing strategies are adopted in the deployment of the auditors that include effective skills mixing, bespoke technical training and adequate support mechanisms. In compliance with the International Standards on Auditing, our audits undergo a three-level review to ensure audit quality.

Commission on Audit,
Republic of the Philippines