



**FOR INFORMATION**

SIXTH ITEM ON THE AGENDA

**Audit questions**

**Follow-up to the report of the External Auditor on the accounts for 2006–07**

1. At the 301bis Session (May 2008) of the Governing Body, the Committee considered the report of the External Auditor on the accounts of the 2006–07 financial period which included specific recommendations and observations relating to financial management, effectiveness of project management, IRIS and financial governance. The follow-up undertaken by the Office on the recommendations is provided, for information, in the appendix.
2. The Director-General will continue to work closely with the new External Auditor to follow-up on recommendations from the previous External Auditor, as he attaches great importance to them and wishes to derive full benefit for the Organization from the work performed by the External Auditor.

Geneva, 29 January 2009.

*Submitted for information.*

## Appendix

### Action taken in response to the recommendations made in the External Auditor's report on the 2006–07 accounts

Recommendation	Response from ILO management
<b><i>Strengthen financial management at strategic level</i></b>	
<p><b>Recommendation 1a:</b> The Treasurer and Financial Comptroller should provide the Senior Management Team (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 activities and deliveries, including the regular budget and extra-budgetary technical cooperation.</p>	<p>Corporate level financial information is provided regularly to the Director-General and his senior financial and management advisers. Financial and management advice has been provided to the Director-General by a subgroup of the SMT comprising the Executive Director of CABINET, the Executive Director of Management and Administration, the Treasurer and Financial Comptroller, the Director of Programming and Management (PROGRAM), and the Deputy Director of CABINET. The role of this subgroup, augmented by the Director of Partnerships and Development Cooperation (PARDEV), has now been formalized. It is chaired by the Director-General and meets on a quarterly basis (or more frequently as necessary) to review consolidated financial information and performance information.</p> <p>The reports from these meetings, together with the results of the six-monthly resource reviews of sectors and departments, are reported to the SMT and form the basis of a discussion within the SMT on the resource situation of the Office.</p>
<p><b>Recommendation 1b:</b> Significant financial risks and mitigating actions to control them should be reported regularly to the SMT.</p>	<p>The SMT discussions referred to in the above response include reports from the Treasurer, Directors of PROGRAM and PARDEV on any Office-wide financial, budgetary or funding risks.</p>
<b><i>Improve the quality and effectiveness of project management arrangements</i></b>	
<p><b>Recommendation 2a:</b> The ILO takes steps to ensure that all project managers adopt and follow the Technical Cooperation Manual, with appropriate training as necessary.</p>	<p>The Technical Cooperation Manual, which provides detailed guidance on the design, implementation, monitoring and evaluation of technical cooperation programmes and projects, is now available in English, French and Spanish on the ILO Intranet. Electronic publication allows the Manual to be updated frequently. Office staff were made aware of the availability of the various versions of the Manual through several announcements on the Intranet homepage. Printed versions of the Manual in the three languages will be available by February 2009.</p> <p>To ensure wider use of the Manual, the Office is preparing a directive and related procedures on technical cooperation, which will govern the design and implementation of technical cooperation and ensure that it reflects the Office's programming priorities. The directive will refer to the Manual as the official guidance on technical cooperation procedures and good practices. The directive is currently under discussion and will be published in the first quarter of 2009.</p> <p>A regular training course on project design and implementation based on the Manual was established jointly with the Turin Centre. It is offered twice a year, either in Turin or in the field. To date, 190 officials have been trained and at least three additional workshops are planned for the rest of the biennium. A shorter workshop module on project implementation was piloted in Addis Ababa in October. It resulted in greater awareness of technical cooperation procedures. For officials not able to attend live training, a self-guided learning package on project design and implementation planning, also based on the Manual, has been developed and is being piloted. It will be made available on the Intranet and on CD-ROM.</p>

**Recommendation****Response from ILO management**

**Recommendation 2b:** All project managers be provided with access to the ILO's financial management systems to avoid reliance on duplicate and inefficient local financial records.

The Office has also developed further tools to help managers effectively implement technical cooperation projects. Project monitoring templates have been improved to better reflect the results-based management approach, and a specific email address was established as a helpdesk for project implementation problems. Dedicated staff are in place to provide advice to field offices and technical units on ILO funding priorities, and technical cooperation policies and procedures.

All ILO offices have access to the ILO's financial management systems as do larger TC projects. Reports extracted from the system are distributed to project managers in remote areas without direct access. As access by external offices to IRIS is extended, project managers with Internet access will also be able to review financial records online.

**Recommendation 2c:** Senior ILO officials adopt a more proactive 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).

As part of the efforts to improve senior management oversight of technical cooperation, the Office has set up quarterly meetings with the relevant Regional Offices and sectors to monitor project implementation. The Office met with all regional and executive directors to discuss delivery issues during the November Governing Body. In July 2008, the Office resumed sending directors quarterly reports comparing performance with previous years to solicit their feedback and to encourage more proactive monitoring and oversight of project managers and delivery. The most recent report was sent in October 2008.

In September 2008, the Office strengthened its project appraisal procedures so that all project proposals are appraised against a number of fixed design criteria to ensure that they are feasible, sustainable, and in line with ILO priorities and outcomes. An updated resource mobilization strategy was put into place which focuses on securing multi-annual partnership agreements and contributions to the Regular Budget Supplementary Account (RBSA). This should allow the Office to better align technical cooperation with decent work outcomes as spelled out in the programme and budget and Strategic Policy Framework. During the second quarter of 2009, investments will be made in the Office Inter- and Intranet to provide better access to information and good practices on resource mobilization and project implementation, and to foster knowledge sharing and a cohesive community of practice in the area of technical cooperation.

**IRIS**

**Recommendation 3:** The ILO should 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 costs, benefits and risks should be regularly monitored.

In the light of discussion so far of the field structure review, developments related to UN reform and a review of experience in Jakarta, an Operational Model, Deployment Strategy and Cost Benefit Analysis on roll-out of IRIS to the field have been prepared. Summaries were submitted to the Information and Communications Technology Subcommittee (ICTS) of the PFAC at the November 2008 session of the Governing Body. This included information related to the costs, risks and benefits the IRIS field roll-out will bring to the Office. Furthermore, the Office has established an internal governance structure to monitor project costs, benefits and risks on a regular basis. It is chaired by the Executive Director of Management and Administration and includes, among others, the Internal Auditor.

The availability of a responsive network connection to the IRIS hosting site is one of several critical prerequisites which must be fulfilled before deployment is implemented in any external office. The Jakarta pilot experience has confirmed the importance of connectivity. In some countries where the public Internet is not reliable enough to accommodate processing IRIS transactions, a correctly configured guaranteed connectivity service would have to be acquired, entailing additional costs. In offices where capacity of staff is insufficient, transaction volumes are minimal, or costs to improve technology are prohibitively high, servicing arrangements with other ILO offices will be established.

Recommendation	Response from ILO management
<b>Improved financial governance – Management</b>	
<p><b>Recommendation 4:</b> Complete the necessary financial management framework, through:</p> <ul style="list-style-type: none"> <li>– early implementation of IRIS for the ILO as a whole; and</li> <li>– the adoption of International Public Sector Accounting Standards (IPSAS).</li> </ul>	<p>Plans for the roll-out of the remaining IRIS functionality to field locations were submitted to the ICTS of the PFAC at the November 2008 session of the Governing Body. The first phase of the pilot implementation in the Subregional Office in Budapest was completed in November 2008. Based upon experience and lessons learned, the remaining IRIS functions will be rolled out to Budapest in 2009. Based on the operational model to be developed in 2009, the remaining field offices will receive IRIS in the 2010–11 biennium.</p> <p>The Office is on schedule to implement IPSAS as of January 2010. Proposed amendments to the Financial Regulations have been presented to the Governing Body at its current session. Work is under way to configure a new fixed assets system to meet the revised reporting requirements as well as to improve fixed asset management. Budgetary provisions to meet the ongoing IPSAS compliance costs are included in the Programme and Budget proposals for 2010–11.</p>
<b>Improved financial governance – Structural reforms</b>	
<p><b>Recommendation 5:</b> The ILO should address the following structural reforms in the immediate future:</p> <ul style="list-style-type: none"> <li>– improved executive decision-making based on a more comprehensively informed Senior Management Team taking greater corporate responsibility for decisions;</li> <li>– full embedding of results-based management (RBM) in operational management processes;</li> <li>– development of a systematic risk management strategy keyed into business processes; and</li> <li>– continued strengthening of the governance and oversight processes which ensure the accountability of the executive to the Governing Body.</li> </ul>	<p>As indicated in the Office's response to recommendation 1a above, the Director-General chairs a subgroup of the Senior Management Team which reviews the financial situation of the Office and reports to the SMT as a whole. In addition, the Strategic Policy Framework 2010–15 and the Programme and Budget proposals for 2010–11, both to be considered by the GB during the present session, contain provisions for strengthening the role of the SMT.</p> <p>Further training on RBM and on work planning will be held in 2009. A training officer has been recruited for this purpose. In addition, funding has been set aside for development of IRIS support to operational management, in particular through the development of electronic dashboards. Work has begun on the basis of a project plan and will be completed by the end of 2009.</p> <p>To pilot the implementation of risk management, the Office has drafted a risk management policy statement, a guide to managing risks, and training materials on risk management. The training programme consists of a workshop followed by unit level sessions in which facilitators help departmental managers integrate risk management into existing business processes. The workshop is designed to introduce departments to the fundamentals of identifying and managing risks at the operational level. The follow-up sessions entail individual departments reviewing the risks associated with their specific functions and business processes with the help of experienced risk managers. This facilitates the identification of risk factors in business processes and mitigating actions. Progressively, all departments will implement risk registers to track and report on risks. As appropriate, business processes will be modified. To date, training has been provided to units in the Management and Administration Sector and to the Partnerships and Development Cooperation Department, the Office of the Legal Adviser, and the Relations, Meetings and Documents Services Department. The lessons learned from the initial round of training will be fed back into the material prepared and the training will then be applied more widely throughout the ILO.</p> <p>The Independent Oversight Advisory Committee became operational in September 2008 and has established its workplan for the biennium. Its first report is before the Governing Body at the current session.</p>