



## Governing Body

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Programme, Financial and Administrative Section

PFA

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**FOR INFORMATION**

## External audit plan

**Summary:** In this paper, the Director-General transmits to the Governing Body the External Auditor's summarized annual audit plan for the year ending 31 December 2016, for information.

**Author unit:** Commission on Audit, Republic of the Philippines (External Auditor).

**Related documents:** None.



## **International Labour Organization**

### **Summary annual audit plan to the Governing Body for the year ending 31 December 2016**

#### **Our mandate**

The consolidated financial statements of the International Labour Organization 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, Republic of the Philippines is the auditor of the International Labour Organization (ILO) following appointment by the Governing Body, for a period of four years commencing on 1 April 2016, in accordance with Chapter IX of the Financial Regulations.

#### **Overall audit objectives**

Our overall audit objectives are:

- A.** 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 2016, 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 ILO financial statements were prepared in accordance with the stated accounting policies;
  - the accounting principles were 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 ILO Financial Regulations and legislative authority.
- B.** 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 ILO Financial Regulations).

#### **Audit approach and methodology**

In alignment to the requirements of the International Standards on Auditing, we will apply a risk-based approach in the audit of the ILO's financial statements as well as its operational management.

The audit approach will be delivered in an audit methodology that will align our audit process to efforts to further enhance governance particularly in the area of financial reporting; provide the users of ILO financial statements with a higher level of assurance that

Organizational processes are designed and operating effectively; and enable us to perform more effective and efficient audits of the Organization's accounts and resources.

In the delivery of the risk-based audit methodology, we employ systematic and logical procedures below:

- Before undertaking field work, major entity-level risks (strategic risks) that can have an impact on our audit assignment management and other audit planning process factors such as competency and independence are taken into consideration. Further, we assess beforehand the complexity of information technology (IT) of our client and the relevance and efficiency of using the works of the information technology audit expert and that of the Internal Audit.
- Understand the operations to identify and prioritize risks.
- Assess ILO's risk management strategies and controls to determine residual audit risk.
- Manage residual audit risk to reduce residual audit risk to an acceptable level.
- Communicate value delivered through discussion of audit findings and conclusion with the ILO management for their resolution.

During the entire course of our audit, establishing information integrity occupies the foremost consideration as we probe information provided by the ILO relating to its relevance and reliability. It is required in our audit that we obtain an understanding of the flow of transactions from operations, events, and facts from their inception to their inclusion in the financial statements and disclosures to provide us a "top-down" focus to identify financial statements misstatement risks.

## Initial risk perspectives

During our initial audit engagement, we determined a number of relevant factors and changes within the ILO operations that we consider as our initial audit trajectories. While our observations do not warrant that risks indeed reside in several operational aspects of ILO management, we have planned to input this information into our interim audit work, our field audits and subsequently the year-end audit for 2016. These factors and changes are:

- **Governance Mechanisms including results-based management.** This includes: Accountability arrangements; Statement of internal control; Risk Management; Internal Control; Results-based management; Programme planning; Work planning; and Results monitoring.
- **Financial reporting process and critical information processes.** This includes: Financial reporting framework and process; revenue stream; expenditure stream – staff cost and payroll system; and procure-to-pay.
- **Information technology management.** This includes: interface of the Integrated Resource Information System (IRIS) to other systems and IT management (governance, risk management framework, and processes).

## Audit materiality

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.

We have set our preliminary materiality at approximately 2 per cent of average total expenses of the ILO from the last two biennia, or US\$15.3 million.

We considered the following factors in establishing materiality: the needs of the ILO and other contributors, representatives of governments, employers and workers and other multilateral agencies. This is consistent with the materiality level used for the 2015 financial statement audit of our predecessor. 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

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 2016.
- **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, 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. 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.

In addition, we will provide management with the following reports during the course of our audit:

- **Management letter.** A derivative communication that identifies opportunities for changes in procedures that in our view would improve systems of internal control, streamline operations, and/or enhance financial reporting practices.
- **Audit observation memoranda.** A written communication to concerned staff informing them of any deficiencies observed in the audit of accounts, operations or transactions.

## Planned field works for 2016

In line with our risk-based audit methodology, our planned works for the 2016 audit will consist of the following activities:

Offices to be visited	Audit areas /activities
ILO headquarters	<b>Financial audit:</b> Review of financial reporting process; pro-forma financial statements and disclosures; test of process controls and tests of details of transactions and balances covering the period from January to August 2016.
Interim audit	<b>Performance audit:</b> Review of Results-Based Management and Enterprise Risk Management and Accountability (Governance).
ILO Regional Office for Asia and the Pacific and CO-Bangkok	<b>Financial and compliance audit:</b> Review of key business processes and testing of effectiveness of controls and determine compliance with ILO's financial and administrative regulations.
ILO headquarters	<b>Year-end financial audit:</b> Audit of financial statements, note disclosures and schedules as at 31 December 2016.  Test of balances and substantive tests of transactions for 2016.
ILO Regional Office for Europe and Central Asia	<b>Financial and compliance audit:</b> Review of key business processes and testing of effectiveness of controls and determine compliance with ILO's financial and administrative regulations.
CO-Manila	<b>Financial and compliance audit:</b> Review of key business processes and testing of effectiveness of controls and determine compliance with financial and administrative regulations by the Country Office.
ILO headquarters	Conduct quality assurance review of the Report of the External Auditor on the ILO.

As ILO's External Auditor, we also expect to perform a limited number of project audits based on requests received from ILO extra-budgetary donors. A separate terms of engagement will be prepared for any such requests.

## Audit management

The management of our audits is based on our established operating philosophy of aligning our audit process more closely with the needs of its international clients to improve its governance and provide the users of its financial statements a higher level of assurance that our client's processes are effective as to their design and operation.

Effective staffing strategies are adopted in the deployment of the auditors that include effective skills mixing, bespoke technical trainings and adequate support mechanisms. In adherence to the International Standards on Auditing, our audits undergo a three-level review to ensure audit quality.

Commission on Audit, Republic of Philippines

Geneva, 31 January 2017