



## Governing Body

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GB.317/PFA/7

**Programme, Financial and Administrative Section**  
*Audit and Oversight Segment*

**PFA**

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### SEVENTH ITEM ON THE AGENDA

## Report of the Chief Internal Auditor for the year ended 31 December 2012

## Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2012

### Purpose of the document

This paper contains the report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2012 for consideration by the Governing Body.

**Relevant strategic objective:** Governance, support and management.

**Policy implications:** None.

**Legal implications:** None.

**Financial implications:** None.

**Decision required:** None.

**Follow-up action required:** The Office to provide follow-up.

**Author unit:** Office of Internal Audit and Oversight (IAO).

**Related documents:** GB.289/PFA/7, GB.313/PFA/5, GB.317/PFA/6.



1. In accordance with the decision taken by the Governing Body at its 267th Session (November 1996), the Director-General transmits herewith the report of the Chief Internal Auditor on significant findings resulting from audit and investigation assignments carried out during 2012.
2. The Director-General considers the work performed by the Chief Internal Auditor to be extremely valuable in assessing strengths and weaknesses in operations, practices, procedures and controls within the Office. Recommendations made by the Office of Internal Audit and Oversight are thoroughly evaluated and there is constant dialogue between managers and the Chief Internal Auditor to give effect to them.



## Appendix

### **Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2012**

#### ***Introduction***

1. The Office of Internal Audit and Oversight (IAO) of the ILO fulfils an internal independent oversight function, as established under article 30(d) of the Financial Regulations and Chapter XIV of the Financial Rules. Its mandate is further underpinned by its Audit Charter, which was approved by the Governing Body at its 301st Session, in March 2008. The Governing Body approved a revised version at its 307th Session, in March 2010.
2. The IAO's mission is to provide the Governing Body and the Director-General with an independent, objective assurance activity designed to add value and improve the ILO's operations. The IAO also aims to assist the Office in accomplishing its strategic objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In addition, its mandate includes responsibility to conduct investigations into allegations of financial or administrative misconduct and other irregular activities.
3. The IAO conducts its activities in conformity with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing, and the Uniform Guidelines for Investigations as adopted by the Conference of International Investigators of the United Nations Organizations and Multilateral Financial Institutions.
4. The IAO does not develop or install procedures or engage in any activity that it would normally review or appraise or which could be construed as compromising either its independence or objectivity. The IAO has full and free access to all records, personnel, operations, functions and other material relevant to the subject matter under review.

#### ***Summary of activities***

5. This section provides a brief overview of the main activities undertaken by the IAO in 2012.

#### **Assurance audits**

6. During 2012, the IAO conducted one audit at headquarters, six field audits, and issued 12 assurance audit reports – four of which related to two field assignments conducted in 2012, and eight related to 2011 audit assignments (see Annex I). Audit reports relating to those assignments which are in the reporting stage shall be issued in 2013 and included in the Chief Internal Auditor's report that will be presented to the March 2014 Governing Body session.

#### **Investigations**

7. During 2012, the IAO received 18 allegations. At the end of 2012, seven cases remained open. Investigations into five allegations proved to be either unfounded, or related to administrative/management matters rather than fraud, misuse of assets, or other irregular acts. The IAO has completed the fieldwork to address four allegations and will issue the related reports in 2013. One allegation was substantiated without requiring a full

investigation. One investigation has been completed and the report issued. In addition, three reports relating to earlier investigations were issued in 2012.

#### Other activities

8. The IAO is also responsible for providing internal audit services to the International Training Centre of the ILO in Turin. The summary results of internal audits are reported to the Board of the Centre during its annual meeting.
9. During 2012, the IAO provided additional services upon the request of management including feedback into the development of the Leadership Development Initiative (LDI); providing inputs into the ILO's memorandum of understanding with the United Nations Volunteers (UNV); and providing draft text for an audit clause within donor agreements.

### **Summary of audit and investigation results**

10. The results of the IAO's activities as reported to management during the course of 2012 found many positive aspects, as well as areas for improvement. Overall, the IAO did not identify any major weakness in internal control apart from two instances, which concerned renovation costs incurred by an external office and control and monitoring of implementation agents.

### **Office-wide issues**

11. The IAO's reviews, investigations and other activities identified a number of issues that have office-wide implications, as reported below, which if addressed should enhance internal control and internal governance processes, and may be relevant to the Office's ongoing reform initiative.

#### Risk management

12. The IAO has taken note of the Office's response to its 2011 recommendations,<sup>1</sup> which states that the Deputy Director-General/Management and Reform (DDG/MR) is leading a review of policies, procedures and practices related to risk management and a contract was signed in early 2012 with a consultancy firm to support this effort. The Office informed the IAO that the work being performed complies with International Standards Organization (ISO): 31000, and the IAO confirms that it has been fully consulted throughout.
13. Guidelines issued on the requirements of ISO 31000 set out a structured approach to enterprise risk management (ERM). This includes the development of a risk management policy, which many organizations issue each year to include any updates, reflecting the ongoing nature of risk management. The ILO has such a policy in place and it is being reviewed together with draft guidance as part of the ongoing process of developing ERM. Applying the guidelines on ISO 31000 is a good practice.
14. The ISO 31000 guidelines state that overall responsibility for risk management must lie with senior management, in order to help ensure that risk management becomes embedded into all management processes and activities. At the time of writing this report, the Office informed the IAO that it intended to conduct a risk assessment workshop for the Senior Management Team, including the Regional Directors, and other managers in Geneva managing high-level risks. The purpose of the workshop shall be to identify, assess and prioritize the most significant risks facing the Organization. The fact that a workshop for senior management is being planned is a positive way forward, as it follows the ISO 31000

<sup>1</sup> GB.317/PFA/6.

principle that risk management needs to be embraced at the highest levels of any organization for it to become embedded into an organization's business processes.

15. Following the workshop, the IAO believes it would be helpful if the Office were to develop a high-level action plan needed to implement the Risk Management Policy. This would help inform any decision on allocation of internal resources given the major projects the ILO is currently undertaking (the headquarters building renovation, IRIS field roll-out, and IPSAS). To facilitate and manage the ongoing process of ERM it is common for an organization to have a position of risk officer to fulfil this role. If resources are available, the Office should consider if such a position could be established to lead the process of rolling out risk management into all aspects of the ILO's activities.

#### Staff development

16. The report of the Chief Internal Auditor for 2011<sup>2</sup> noted substantial progress made by the Office in relation to staff development and training. During 2012, more work was carried out in this area, as summarized in the Office's report on the follow-up to the 2011 audit report. Notwithstanding the real progress made in identifying and meeting training needs, the results of the IAO's audits of field offices and project offices still identify gaps at the operational level that are not always being fully met, particularly with respect to financial management, administrative matters, and basic IT controls. The ILO's Human Resources Development Department (HRD) informed the IAO that it intends to launch an e-based Learning Management System (LMS) early in 2013, that it shall be accessible to all ILO staff worldwide, and is expected to provide essential support in analysing development needs, as well as facilitate assessing the impact of training initiatives. It is too early at this stage to assess the benefits of the actions taken by HRD to address development needs and gaps in training. The IAO shall continue to review training as part of its audits.

#### Headquarters audits

17. During 2012, the IAO issued an IT audit report on the security of the ILO's email system. The IAO also carried out a combined audit on the Office's pensions unit and voluntary thrift benefit fund (VTBF) and the audit report is being finalized. The IAO is also finalizing the audit report on the earlier audit of the urgent renovation works.

#### Security of ILO Electronic Mail Information Technology Systems

18. The IAO subcontracted this audit to a consultancy firm, who completed their fieldwork in February 2012. The consultants performed a security assessment, and concluded that the ILO executes all relevant activities of IT operations in a professional manner. However, the report noted that although improvements have been made in implementing and applying best practice IT standards such as ITIL and CoBIT, processes have not yet matured to a sufficient level to ensure risk is managed consistently. Failure to increase the level of maturity using these standards could leave the Office vulnerable to security threats, which, if the risk materializes, may compromise the security of some aspects of the ILO's IT environment.
19. The audit report included a "roadmap" to assist the ILO's Information Technology and Communications Bureau (ITCOM) to implement the recommendations in a structured and organized manner. The report also recommended that ITCOM should perform a detailed external and internal attack and penetration vulnerability assessment of the email system and other IT infrastructure, following the implementation of the main recommendations. ITCOM informed the IAO that it carries out regular vulnerability assessments. In the IAO's view, this is an essential element of a robust system of internal control over the

<sup>2</sup> GB.313/PFA/5.

ILO's IT environment. To enhance internal control over IT security, the IAO recommends that the Office determine those parts of the IT environment it considers as critical. Thereafter, internal and external attack and penetration assessments should be carried out on a regular basis to identify any areas of vulnerability, and reduce the risk of hacking or malicious acts from either internal or external sources on critical elements of the ILO's IT environment.

### ***Field audits***

20. During 2012, the IAO issued assurance audit reports with respect to:

- the ILO Country Office for Nepal in Kathmandu (CO-Kathmandu);
- the security of ILO electronic mail information technology;
- a follow-up audit on the implementation of internal audit recommendations: the ILO Decent Work Team for South Asia and Country Office for India (DWT/CO-New Delhi);
- the Regional Office for Africa (ROAF) and the ILO Country Office for Ethiopia and Somalia (CO-Addis Ababa);
- the ILO Country Office for the United Republic of Tanzania, Kenya, Rwanda and Uganda (CO-Dar es Salaam);
- the ILO Decent Work Team and Country Office for the Caribbean in Port-of-Spain, Trinidad and Tobago (DWT/CO-Port-of-Spain);
- the ILO Decent Work Team for Eastern and Southern Africa and the ILO Country Office for South Africa, Botswana, Lesotho, Namibia and Swaziland (DWT/CO-Pretoria);
- the Project Free State SME Development Initiative, Bloemfontain, South Africa;
- the ILO Decent Work Team and Country Office for Central America in San José, Costa Rica;
- the project “Fortalecimiento de Sistemas Integrados de Formacion, Orientacion e Insercion Laboral” in San José;
- the Tackling Child Labour through Education (TACKLE) Project of the International Programme on the Elimination of Child Labour (IPEC); and
- a financial and administrative review of the ILO Liberia Project Office in Monrovia. The IAO led and supervised the work, which was carried out by the ROAF Verification Unit.

21. In its assurance audit reports, the IAO commented on many positive aspects of operational, financial, budgetary management and administrative controls, with many of the offices audited having sound internal controls in place to manage many of the risks assessed by the IAO as relevant to their operations. However, the IAO noted certain areas where improvements could be made to enhance internal controls, especially with respect to oversight over implementing agents, and local procurement concerning renovation works. Some issues of concern were noted in more than one location.

### **Main findings of field audits**

#### ***Oversight of implementing agents***

22. Technical cooperation projects make extensive use of implementing agents as a means of project intervention, and they are normally constituent-related organizations or non-governmental organizations (NGOs), and account for a high volume of ILO



procurement activity. The selection process is decentralized and the responsibility mainly lies with the local field offices.

23. The IAO identified the need to improve oversight of implementing partners in the Chief Internal Auditor's report to the 2012 Governing Body.<sup>3</sup> Four of the audit reports issued during 2012 indicated that this area remains cause for some concern. The reports noted that improvements were required over monitoring of implementing agents and the need for better quality documentation from them to meet the ILO's reporting requirements. The IAO has been informed that, at times, it is part of a project's goal to increase capacity of certain implementing agents used in project intervention even though they may not have the capacity to comply fully with ILO reporting requirements at the beginning of their engagement.
24. In March 2012, the Office issued an internal office procedure on implementation agreements, which included procedures for selecting implementing agents. One procedural requirement is that the implementing agent should be able to comply with the ILO's reporting requirements before being eligible for selection. It is too early to assess the impact of this new guidance, but it does provide a good benchmark against which to assess implementing agents.
25. Once the new procedure has become fully established, there should be an opportunity to draw on lessons learned from its implementation to improve further the guidance to cover operational aspects post selection. The IAO therefore suggests that the Office develop technical guidance to assist ILO office or project staff identify implementing agents that require closer monitoring, and how to help them put basic reporting systems in place. Furthermore, the guidance should include steps to take if an implementing agent consistently fails to meet basic requirements.

#### *Field office building renovation*

26. In one instance, the country office concerned undertook a major project when it moved premises, and embarked on a series of building renovations, costing a total of some US\$200,000. However, these works were not properly prospected nor approved through established ILO procedures. Moreover, the IAO noted that the final cost came to US\$103,859 more than the original estimate. Following intervention by the regional office, the Director of the country office informed the Treasurer and Financial Comptroller (TR/CF) that the process did not follow established procedures and accepted responsibility for this lack of compliance. While the IAO found no evidence that the ILO incurred a financial loss, and confirmed during its visit that the work was correctly undertaken, in the IAO's view, the manner in which the refurbishment project was handled represented an administrative irregularity, which at that time exposed the ILO to increased financial and reputational risk.
27. Although it is not always easy to prevent an instance such as this occurring in a decentralized system, the ILO's system of internal control did detect it and appropriate action was subsequently taken. In addition, the planned creation of local contracts committees should further reduce the risk of such an event recurring. Once the local contracts committees are established and operational, all managers in the field should be informed of their responsibility to adhere to established procurement practices and ensure all appropriate proposed procurement actions are presented to the local contracts committee for consideration.

#### *Streamlining work processes*

28. In three of the reports issued during 2012, the IAO identified scope to streamline existing processes. In the case of one DWT/CO, there was a need to clarify and formalize the division of duties, and roles and responsibilities of the respective financial and

<sup>3</sup> GB.313/PFA/5.

administrative functions of the country office as compared to those of the project offices to avoid possible misunderstandings with regard to financial matters. In another case, to improve the controls governing local procurement, individual duties within one ILO project office required review to strengthen internal controls by putting in place adequate separation of responsibilities. In a third case, the IAO identified scope to improve the regional office's operational workplan to assist in planning activities, allocating resources, and improving coordination.

29. While recommendations were made at the local level to address the issues identified by the IAO, the findings could be applied to other ILO field offices, and possibly incorporated into the forthcoming field review that will form part of the ongoing reform process.

#### *IT controls*

30. In two of the country offices audited by the IAO, there were insufficient controls over IT security at the local level, including a lack of offsite data back-up, which is a crucial part of any business continuity plan. The IAO noted that in both cases the server rooms did not comply with good practice, in terms of physical protection. In one instance, one of the smoke detectors was not fully operational. The IT clerk confirmed that "on many occasions" the smoke detectors were giving false alarms and were therefore switched off.
31. During audit missions, the IAO routinely requests a copy of each country office IT administrator log. In two locations no such log had been maintained. Administrator logs should be maintained, inter alia, for management information purposes, to maintain an audit trail, and to facilitate review by supervisors. The IAO recommends that the Office take appropriate steps to ensure that all network administrators be required to maintain up-to-date administrator logs, seeking advice from their regional office and ITCOM as appropriate. Furthermore, regional offices should liaise with their country offices, seeking advice from ITCOM as appropriate, to identify how best to ensure offsite back-up of data in accordance with best practice; and that country office IT staff receive regular and sufficient briefing on ILO standards with regard to IT practices.

#### *RBSA*

32. When applicable, IAO audits contain a separate review of the use of the Regular Budget Supplementary Account (RBSA). The ILO issued an office procedure on the use of RBSA in April 2008, which was superseded by another office procedure in July 2010.
33. During 2012, the IAO's review of the RBSA indicated that expenditure generally conformed with the office procedure, with only minor recommendations to improve controls in one or two instances.

#### *Financial management and reporting*

34. The IAO recommended that two duty stations should be given direct access to ILO's external office financial management system (FISEXT) to facilitate financial and budget management. Currently both the offices use spreadsheets to monitor expenditure and budgets. However, the spreadsheets are not linked to the ILO's accounting systems and cannot always be relied upon to give accurate and up-to-date information. The IAO has been informed that such an arrangement will not always be possible. The Office is in the process of rolling out IRIS to the field, which shall render FISEXT obsolete once the roll-out is complete. Therefore, any decision to extend the use of FISEXT has to be taken against the context of expanding use of IRIS in the field, together with other considerations such as length of project, cost, and staff resources involved in allowing wider access.
35. The fact that some project offices may not have access to up-to-date financial information increases the risk that fraudulent transactions or errors pass undetected for a long period of time or not detected at all. The IAO therefore recommends that the Office should identify standard mitigating controls that can be implemented by ILO country offices and projects to facilitate access to sufficient financial, budgetary and management information for those projects that do not have direct access to the FISEXT system.

## **Investigations**

### Investigation reports issued in 2012

36. In 2012, the IAO reported on four investigations:

- The first report concerned allegations relating to administrative, financial and procurement irregularities on the part of implementing agents. The IAO identified dubious invoices and irregular procurement practices that totalled US\$8,000. The IAO was only informed of the allegations after the project had closed, and one of the staff involved had already left the ILO. This, together with poor documentation, made the investigation more difficult. As a result, the IAO was unable to quantify clearly any financial loss to the ILO within the US\$8,000 noted above.
- The second report related to alleged misconduct. The investigation substantiated the main allegation and the case was submitted to the Accountability Committee.
- The third report also related to alleged misconduct. The investigation did not substantiate the allegation.
- In its fourth report, the IAO investigated allegations of false declaration in relation to statutory travel claims and financial loss to the ILO. The IAO substantiated the allegations, and that the ILO suffered a loss of approximately US\$830. The case was submitted to the Accountability Committee.

37. The Office has taken or is in the process of taking action to remedy the issues raised in the above reports.

### 2012 allegations

38. A summary of the status of the 18 allegations submitted to the IAO and the TR/CF during 2012 is as follows:

- One case completed and investigation report issued (referred to in paragraph 36 above – last bullet point).
- In one case, the Office confirmed that a staff member had falsified documents to secure an unauthorized advance payment to an external collaborator for work that was subsequently carried out. The staff member admitted responsibility and no loss was incurred by the Office.
- In five cases the allegations proved to be either unfounded, or related to administrative/management matters rather than fraud, misuse of assets, or other irregular acts.
- In four cases the investigation field work is completed and the reports shall be issued in 2013, which shall be reported to the Governing Body at the March 2014 session.
- Seven cases are under review to determine if a full investigation is merited.

39. In the course of conducting its investigations, the IAO identified a number of areas where internal controls could be improved, which were communicated to the Office in separate internal audit reports.

40. From the investigation work undertaken in 2012, lessons learned from the analysis of the failing in internal control that either permitted the irregularity to occur or for it to remain undetected for a considerable length of time can be summarized as follows:

- More rigorous procedures should be put in place for the selection and subsequent monitoring of implementing partners.
- The TR/CF and Chief Internal Auditor should be informed of fraud or suspected fraud as soon as the allegations are raised.

- Original boarding passes should be attached in support of travel claims.
- Country offices should be aware of all staff movements in case of emergency. This is particularly important in those locations most at risk from civil unrest, natural disaster, or other catastrophic events.

41. The IAO has made appropriate recommendations to address the above issues in its internal audit reports.

### ***Follow-up of internal audit recommendations***

#### **Follow-up audits**

42. In 2012, the IAO issued its report into the follow-up of the 2009 audit of the ILO DWT for South Asia and the ILO Country Office for India (DWT/CO-New Delhi).
43. The 2009 audit report on the DWT/CO-New Delhi contained 68 recommendations. The IAO found that the DWT/CO-New Delhi had implemented 33 of the recommendations; 23 recommendations were in the process of being implemented; eight had not yet been implemented; three had been closed unagreed; and one was redundant. As the three unagreed recommendations were low-risk/low-impact items, the IAO accepted the response from management and no further action was taken.
44. In the IAO's opinion the main issues that remained outstanding and needed to be fully addressed concerned the following:
- completing the review of internal controls to manage implementing partners;
  - finalizing the DWT/CO-New Delhi workplanning system;
  - clarifying the roles and responsibilities between the support units;
  - ensuring proper application of external collaboration contracts; and
  - enhancing controls over seminar advances.
45. Of the 68 recommendations made in 2009, the DWT/CO-New Delhi accepted 65, yet three years later only 33 (50 per cent) of the recommendations had been fully implemented. This is on a consistent level with the findings of the follow-up audit of the 2009 DWT/CO-Dakar Office, which the IAO reported to last year's Governing Body as having only 29 of 52 recommendations fully implemented.

#### **Office implementation reports**

46. The report of the Chief Internal Auditor for 2011 noted that the Office had updated its procedure on the follow-up of the IAO recommendations in September 2011, which was too early at that time to form an opinion as to how effective the changes had been.
47. Although the response to the follow-up of internal audit recommendations has improved over recent years, it now seems to have plateaued. Although the Office of the TR/CF has now received all nine implementation reports due in 2012, none met the six-month target set in the Programme and Budget for 2012–13. Furthermore, the section above on the IAO's follow-up audit revealed that over three years after an audit had taken place, only 50 per cent of the recommendations had been fully implemented.
48. The IAO is in regular contact with the Office of the TR/CF, and noted that headquarters has follow-up on a regular and systematic basis, but responses from field locations remain inconsistent. The Office has taken measures to reinforce the message that senior managers

must comply with the internal procedure on follow-up of internal audit recommendations, and assume responsibility for ensuring appropriate action is taken.

49. In last year's report to the Governing Body, the IAO recommended that to facilitate implementation of audit recommendations a focal point should be nominated for each region to liaise with the Office of the TR/CF. The IAO remains of the view that a focal point at the operational level could be of benefit. While senior managers are responsible for ensuring that internal audit recommendations are responded to and deadlines met, a nominated focal point could assist at the operational level. The IAO therefore suggests that the Office reconsider this recommendation.

### ***External quality review***

50. In 2003, the IAO adopted the Professional Standards of the Institute of Internal Auditors (IIA).<sup>4</sup> The IIA standards require that internal audit departments undergo an external quality review at least once every five years. The purposes of the external quality assessment are to:

- assess the effectiveness of Internal Audit (IA) activity in providing assurance and consulting services to the board, senior management and other interested parties;
- assess conformance to IIA standards and provide an opinion as to whether the IA activity generally conforms to all of the standards; and
- identify opportunities, offer recommendations for improvement, and provide counsel to the Chief Internal Auditor and staff for improving their performance and services and promoting the image and credibility of the internal audit function.

51. To comply with this requirement, the Chief Internal Auditor commissioned an external assessor to conduct a review of the IAO in 2007. The aim of the review was to assess the overall quality of the IAO's audit activities and the extent to which the IAO is in compliance with IIA standards, and identify areas for improvement.

52. In 2012, the IAO commissioned qualified assessors to conduct the latest external quality review. At the time of writing, the assessment was ongoing. The results will be reported to the Director-General, the Independent Oversight and Advisory Committee, and to the Governing Body at its March 2014 session.

<sup>4</sup> GB.289/PFA/7.

## Annex I

### List of internal audit reports issued in 2012

	Audit reference	Date issued
<b>ILO</b>		
ILO 2012–13 Risk Assessment and Audit Plan	IA 1-6(2012-13)	16/1/12
ILO Country Office for Nepal in Kathmandu (CO-Kathmandu)	IAO-41-2012	24/2/12
Security of ILO Electronic Mail Information Technology Systems	IAO-4-63	26/3/12
ILO Regional Office for Africa (ROAF) and ILO Country Office for Ethiopia and Somalia (CO-Addis Ababa)	IAO-43-2012	3/5/12
ILO Decent Work Team and Office for the Caribbean in Port-of Spain, Trinidad and Tobago (DWT/CO-Port-of-Spain)	IAO-44-2012	3/5/12
Report on audit follow-up mission on the implementation of 2009 audit recommendations: ILO DWT for South Asia and ILO Country Office for India	IAO-45-2012	14/5/12
Financial management and administration of the ILO Project Office in Monrovia, Liberia <sup>1</sup>	IAO-47-2012	4/7/12
ILO Country Office for the United Republic of Tanzania, Kenya, Rwanda and Uganda (CO-Dar es Salaam)	IAO-48-2012	3/8/12
Tackling Child Labour through Education (TACKLE) Project of the International Programme on the Elimination of Child Labour (IPEC)	IAO-46-2012	7/8/12
ILO Decent Work Team for Eastern and Southern Africa and ILO Country Office for South Africa, Botswana, Lesotho, Namibia and Swaziland (DWT/CO-Pretoria)	IAO-49-2012	29/8/12
Project Free State SME Development Initiative, Bloemfontain, South Africa	IAO-50-2012	30/10/12
ILO Decent Work Team and Country Office for Central America in San José, Costa Rica (DWT/CO-San José)	IAO-52-2012	31/10/12
Project "Fortalicimiento de Sistemas Integrados de Formacion, Orientacion e Insercion Laboral", San José, Costa Rica	IAO -53-2012	6/11/12
<b>Turin Centre/ITC</b>		
Risk Assessment and 2012 Audit Plan	IA-TC/30	14/3/12
Report on the internal audit of IT security at the International Training Centre of the ILO in Turin (ITC)	IA-TC/39	12/2/12
Report on the investigation of long-outstanding Spanish debts at the International Training Centre of the ILO in Turin	IA-TC/40	20/6/12

<sup>1</sup> Under the supervision of the IAO, the ROAF verification unit carried out the review.

## **Annex II**

### **Summary of recommendations**

#### ***Risk management***

1. Following the workshop, the IAO believes it would be helpful if the Office were to develop a high-level action plan needed to implement the Risk Management Policy. This would help inform any decision on allocation of internal resources given the major projects the ILO is currently undertaking (the headquarters building renovation, IRIS field roll-out, and IPSAS). To facilitate and manage the ongoing process of ERM it is common for an organization to have a position of risk officer to fulfil this role. If resources are available, the Office should consider if such a position could be established to lead the process of rolling out risk management into all aspects of the ILO's activities.

#### ***Email security***

2. To enhance internal control over IT security, the IAO recommends that the Office determine those parts of the IT environment it considers as critical. Thereafter, internal and external attack and penetration assessments should be carried out on a regular basis to identify any areas of vulnerability, and reduce the risk of hacking or malicious acts from either internal or external sources on critical elements of the ILO's IT environment.

#### ***Implementing agents***

3. Once the new procedure has become fully established, there should be an opportunity to draw on lessons learned from its implementation to improve further the guidance to cover operational aspects post selection. The IAO therefore suggests that the Office develop technical guidance to assist ILO office or project staff in identifying implementing agents that require closer monitoring, and how to help them put basic reporting systems in place. Furthermore, the guidance should include steps to take if an implementing agent consistently fails to meet basic requirements.

#### ***ILO field office renovation costs***

4. Although it is not always easy to prevent an instance such as this occurring in a decentralized system, the ILO's system of internal control did detect it and appropriate action was subsequently taken. In addition, the planned creation of local contracts committees should further reduce the risk of such an event recurring. Once the local contracts committees are established and operational, all managers in the field should be informed of their responsibility to adhere to established procurement practices and ensure all appropriate proposed procurement actions are presented to the local contracts committee for consideration.

#### ***Streamlining of procedures***

5. While recommendations were made at the local level to address the issues identified by the IAO, the findings could be applied to other ILO field offices, and possibly incorporated into the forthcoming field review that will form part of the ongoing reform process.

***Field office IT controls***

6. The IAO recommends that the Office take appropriate steps to ensure that all network administrators be required to maintain up-to-date administrator logs, seeking advice from their regional office and ITCOM as appropriate. Furthermore, regional offices should liaise with their country offices, seeking advice from ITCOM as appropriate, to identify how best to ensure offsite back-up of data in accordance with best practice; and that country office IT staff receive regular and sufficient briefing on ILO standards with regard to IT practices.

***Field and project office financial management***

7. The fact that some project offices may not have access to up-to-date financial information increases the risk that fraudulent transactions or errors pass undetected for a long period of time or not detected at all. The IAO therefore recommends that the Office should identify standard mitigating controls that can be implemented by ILO country offices and projects to facilitate access to sufficient financial, budgetary and management information for those projects that do not have direct access to the FISEXT system.

***Follow-up of audit recommendations***

8. In last year's report to the Governing Body, the IAO recommended that to facilitate implementation of audit recommendations a focal point should be nominated for each region to liaise with the Office of the TR/CF. The IAO remains of the view that a focal point at the operational level could be of benefit. While senior managers are responsible for ensuring that internal audit recommendations are responded to and deadlines met, a nominated focal point could assist at the operational level. The IAO therefore suggests that the Office reconsider this recommendation.