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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 2022, for information.

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Related documents: [GB.344/PFA/INF/3](#).

▶ Summary of the annual audit plan for the year ending 31 December 2022

Our mandate

1. The consolidated financial statements of the International Labour Organization (ILO) are subject to an annual audit in accordance with Chapter IX 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 article 35 of the Financial Regulations, for a term of four years commencing on 1 April 2016, covering the 75th and 76th financial periods. ¹ This mandate was subsequently renewed for an additional term of four years from 1 April 2020, covering the 77th and 78th financial periods. ²

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 2022, 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;
 - 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.
 - 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 continue to apply a risk-based approach in the audit of the ILO's financial statements and operational management.
4. The risk-based approach adopted in the audit of the financial statements requires the conduct of risk assessments of material misstatements at the financial statement and assertion levels,

¹ GB.323/PFA/6.

² GB.334/PFA/9.

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 resolution and appropriate action.
8. Moreover, the nature and extent of any work done by the ILO's Office of Internal Audit and Oversight and any external review body have been considered in establishing the scope and objectives of our audit plan. Collective audit efforts were coordinated to the extent practicable for this plan.
9. Notwithstanding the health crisis (COVID-19 pandemic), and in order to adapt to the new normal, a physical (face-to-face) audit approach is intended for the continuity of our mandate during the 2022 interim and year-end audits.

Risk perspectives and audit objectives

10. During our previous audit engagements and owing to the impact of the global COVID-19 pandemic, 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 the current year of our audit mandate, which will focus on the following topics:

- **Financial audit: Audit of financial statements and review of compliance with standards and regulations.** The financial statements of the ILO are prepared in accordance with IPSAS and the Financial Regulations. The risk perspectives will include: accounting and reporting controls in view of the recent upgrade of the Integrated Resource Information System (IRIS), including the changes in some key financial processes or requirements to ensure continuity of operations in the event of teleworking; completeness of financial information; judgements and estimates; cut off procedures; accuracy in the reflection and valuation of assets and liabilities; disclosures; compliance with regulations; and adoption of new IPSAS.

The audit objectives are: (a) to ascertain the efficiency and effectiveness of the design and operation of accounting and reporting controls as impacted by the IRIS upgrade as well as the changes in the financial processes and requirements brought about by the teleworking arrangements; (b) to form and issue an independent audit opinion, thus adding credibility to the financial statements of the ILO; (c) to validate the implementation of prior years' recommendations to ensure that the value added by the external audit is maximized and attained; and, lastly, (d) to determine whether processed transactions comply with the Organization's policies, regulations, rules and procedures, and legislative authority, and that results are being generated by effectively managed processes.

- **Operations audit: Review of Bureau for Employers' Activities (ACT/EMP) and Bureau for Workers' Activities (ACTRAV) operations from 2020 to 2022.** The risk perspectives concerning both ACTRAV and ACT/EMP are divided into five parts as follows: policy, strategy

and framework; reporting and monitoring; achievement and delivery of outcomes; resources; and compliance with regulations, rules and legislative authority.

The general audit objective of the operational audit is to assess the plans and actions taken by the ILO amidst the COVID-19 pandemic in terms of adequacy and efficiency of its cross-cutting policies, framework and strategy. It aims to provide assurance as to whether there are sufficient and functioning monitoring mechanisms and reporting arrangements for programme and project outcomes and results, which should include effective communication arrangements for the escalation of project outcomes and results from country offices to regional offices and then to headquarters. Specifically, the audit aims to determine that:

- (a) current strategic arrangements on the operations of ACTRAV and ACT/EMP, and programme implementation for policy outcome 1 (Strong tripartite constituents and influential and inclusive social dialogue), are covered with the appropriate and adequate cross-cutting policies, strategy and framework to respond to the pandemic and the new-normal way of conducting business;
 - (b) adequate and efficient coordinating, monitoring and reporting controls covering programme and project implementation and delivery are in place to support the operational mandates aligned to the ILO Centenary Declaration for the Future of Work, together with responses to the current health crisis and post-pandemic business environment, thereby achieving targeted outcomes and intended results;
 - (c) targeted outcomes and budgetary performance for policy outcome 1 are achieved within the targeted period aligned with the programme and budget and work plans;
 - (d) resources, both human and financial, are adequate, available and delivered; and
 - (e) transactions have complied with rules, regulations and legislative authority.
- **Operations audit: Audit of Procurement Management.** The core guiding principle in ILO procurement is stewardship. The general principles that fortify the conduct of procurement at the ILO, as established in its Procurement Manual, are: best value for money; economy and efficiency to achieve quality and cost effectiveness; fair and open competition that gives all qualified suppliers an opportunity to participate; transparency and accountability in the procurement process; and other interests of the Organization. The risk perspectives will include: current control mechanisms adopted by the ILO; compliance with all applicable regulations and rules; the procurement system; and procurement transparency and accountability.

The audit aims to obtain reasonable assurance that ILO procurement activities and policies are delivered in a professional, accurate, fair, timely, and transparent and accountable manner, with consideration given to the procurement system adopted and the corresponding value these activities and policies provide to the Organization for the achievement of its objectives.

- **Audits of field offices: ILO Decent Work Technical Support Team (DWT) for Central Africa and Country Office for Cameroon, Sao Tome and Principe, and Equatorial Guinea (DWT/CO-Yaoundé); ILO DWT for West Africa and Country Office for Senegal, Cabo Verde, Gambia, Guinea and Guinea-Bissau (DWT/CO-Dakar); ILO DWT and Country Office for the Caribbean Countries (DWT/CO-Port-of-Spain); ILO DWT and Country Office for Central and Eastern Europe (DWT/CO-Budapest); ILO Liaison Office in Myanmar (ILO-Yangon); and the Inter-American Centre for Knowledge Development**

in Vocational Training (CINTERFOR). The operations of the five ILO field offices and CINTERFOR are embedded in the financial statements for which we render an opinion. As such, it is imperative for us to review and assess the adequacy and effectiveness of their governance, control environment and risk management process.

The key objective of the audit is to ascertain the effectiveness of governance mechanisms (accountability, risk management and internal controls), as well as the accuracy and completeness of financial and management information, including the adequacy, efficiency and effectiveness of controls embedded within the ILO's key and critical business processes for the general management of these offices and the implementation of their programmes and projects. Moreover, the audits aim to determine whether processed transactions complied with ILO policies, regulations, rules and procedures, and legislative authority, and to assess the information resulting from these processes by testing key controls and analysing transaction details.

Audit materiality

11. 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.
12. We have set our overall materiality at approximately 2 per cent of the average total expenses of the ILO for the last five years, or US\$15,778,460.
13. 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 2021 financial statement audit. However, the quantitative measure of materiality is not the only factor considered in evaluating misstatements. Relatively small misstatements may have a material effect on the financial statements because of qualitative considerations.

Our deliverables

14. 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 2022.
 - **Report of the External Auditor to the Governing Body (the "Long Form Report").** This will contain the 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.
15. 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 memoranda.** These are written communications to the officials concerned, informing them of any perceived deficiencies observed in the audit of accounts, operations or transactions.

Planned fieldwork for the 2022 audit

16. In line with our risk-based audit methodology, our planned work for the 2022 audit will consist of the activities described in the table below.

Offices to be visited	Audit areas/activities
<i>Interim audit (November 2022)</i>	
ILO headquarters (audit conducted remotely)	<p>Interim financial audit: Review of compliance with policies, regulations, rules and procedures, and legislative authority pertaining to all accounts composing the financial statements. Extensive internal control testing and substantive testing covering the period from January to September 2022, and transactional analysis of processing streams, such as cash management, receivable and revenue, payable and expenditure, and payroll. Correlation of the identified streams into the accounts and identification of the key and significant processes within the streams.</p> <p>Operations audit – Operational review of ACT/EMP and ACTRAV: Assessment of the plans and actions of the Bureaux amidst the COVID-19 pandemic in terms of the adequacy and efficiency of their cross-cutting policies, frameworks and strategies. Evaluation of adequacy and functions in terms of monitoring mechanisms and reporting arrangements for programme and project outcomes and results, which should include effective communication arrangements for the escalation of project outcomes and results from country offices to regional offices and then to headquarters.</p>
DWT/CO–Yaoundé DWT/CO–Dakar	<p>General review of governance, accountability, control environment and risk management in the offices; and review of compliance with policies, regulations, rules and procedures, and legislative authority pertaining to all accounts composing the financial statements.</p>
<i>Year-end audit (March–April 2023)</i>	
ILO headquarters	<p>Year-end financial audit: Review of Statements I–V of the consolidated financial statements, including the Notes to Financial Statements; review of compliance with policies, regulations, rules and procedures, and legislative authority; test of balances and substantive testing of transactions for 2022; review of compliance with new standards; test of details with a focus on the impact of changes (effects of teleworking); and follow-up of previous external audit recommendations. It will also include the review of accounting estimates used.</p> <p>Operations audit – Audit of Procurement Management: Review of ILO procurement transactions, activities and policies to ensure that they are carried out in a professional, accurate, fair, timely, and transparent and accountable manner, with consideration given to the procurement system adopted and the corresponding value these transactions, activities and policies provide to the Organization for the achievement of its objectives.</p>

DWT/CO–Port-of-Spain DWT/CO–Budapest ILO-Yangon	General review of governance, accountability, control environment and risk management in the offices; and review of compliance with policies, regulations, rules and procedures, and legislative authority pertaining to all accounts composing the financial statements.
CINTERFOR	The audit will focus on: (a) an assessment of the accuracy and appropriateness of the accounting treatment and reporting of its financial transactions as consolidated in the ILO financial statements; (b) a review of the level of compliance with policies, regulations, rules, processes and procedures of its financial transactions and activities; (c) an evaluation of the extent to which CINTERFOR implements its work plan for the period; and (d) a general review of governance, the control environment and the risk management process.

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- 17.** 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

- 18.** 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 the financial statements with a higher level of assurance that our client’s processes are effective as to their design and operation.
- 19.** Effective staffing strategies are adopted in the deployment of the auditors that include effective skills mixing, bespoke technical training and adequate support mechanisms.
- 20.** 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