



THIRD ITEM ON THE AGENDA

**Report of the Chief Internal Auditor
for the year ended 31 December 2002**

**Report of the Chief Internal Auditor on
significant findings resulting from internal
audit and investigation assignments
undertaken in 2002**

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 2002 (see appendix).
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.

Geneva, 30 January 2003.

Appendix

Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2002

Introduction

1. The Office of Internal Audit and Oversight (IAO) of the ILO fulfils an independent oversight function established under article 30(d) of the Financial Regulations. Through audit, inspection and investigation processes, the IAO determines the adequacy and effectiveness of the Organization's system of internal control, financial management and use of assets. Its aim is to provide reasonable assurance that the activities have contributed to the attainment of the Organization's goals and objectives. More specifically, to achieve this, the IAO reviews and appraises accounting, administrative and operating controls; evaluates the responsible, efficient and economic use of the Organization's resources; ascertains the extent of compliance with established rules, regulations, policies procedures and plans; determines the extent to which assets are accounted for and safeguarded from loss; assesses measures taken to prevent fraud, waste and malfeasance; ascertains the reliability of financial and management information; and examines the adequacy of the planning and monitoring system with regard to the operations, functions, programmes and activities within the Organization. Where necessary, the Chief Internal Auditor makes recommendations to improve their adequacy, efficiency and effectiveness. The IAO adopts a proactive approach to facilitating the assessment of risks and controls and promotes a learning culture in support of management's process to enhance efficiency, effectiveness and value for money in the activities of the Organization.
2. The Office of Internal Audit and Oversight 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. Its monitoring procedures are systematized to ensure that all audit recommendations are properly followed up by management, and implemented.
3. This report covers the results of the audits of procurement of office furniture at headquarters; the submission to the United Nations Joint Staff Pension Fund of separation documents and other data; the operations of four field offices and three technical cooperation projects. It also contains the results of investigations into suspected or alleged irregularities with regard to project activities.
4. The detailed programme of work for the year was coordinated with the External Auditor and all audit and inspection findings and recommendations were communicated to the External Auditor. The workplan of the IAO for 2002 could not be fully delivered due to departure of two auditors, one at end of January 2002 and the other at end June 2002. A competition launched in April 2002 has permitted the recruitment of two new auditors from outside the ILO, both with the required technical and professional qualifications and previous audit experience. I wish to thank the Director-General for his support to see to the continuous upgrading of the capacity of the Office of Internal Audit and Oversight to carry out its oversight mandate.
5. The results of the work undertaken by the Office of Internal Audit and Oversight during 2002 indicate that the overall system of internal control within the ILO continues to operate satisfactorily. It provides reasonable assurance that, in the normal course of business, significant irregularities would be prevented or disclosed if they occur.

6. The reports of the Chief Internal Auditor were welcome, and his recommendations were considered relevant, useful, and an aid to management. The Office recognizes that compliance with regulations, although a fundamental prerequisite, does not always guarantee effective expenditure or operations. Management continues to foster a culture that reflects accountability and results-based outcome to ensure value for money through the best possible use of resources. Guidelines on Accountability and Oversight from the Chief Internal Auditor to Directors and Managers were posted on the web site of the IAO in April 2002.

Headquarters audits

Procurement of office furniture at headquarters

7. This audit was requested by the Treasurer and Financial Comptroller when he received reports from the Chief of the Bureau of Internal Administration that procurement of office furniture has been made from a single supplier over the years apparently without regular price assessments.
8. The audit focused on evaluating compliance with procurement rules and instructions. It concentrated its examination on all the purchase orders placed with the named supplier over a period of two years and related accounting documents; and also reviewed past records to verify consistency in procedures and evidence of price comparisons.
9. The audit found no evidence that price comparisons have been regularly performed with respect to purchases of office furniture to ensure value for money in the procurement process. Actions to procure have often occurred on the basis of purchase requests made by email or orally from officials or responsible chiefs of departmental units. The audit also revealed a concentration of purchasing at the end of the biennium indicating inefficient planning of requirements.
10. Whilst there has been failure to organize regular price competitions and purchase requests were not conforming always to prescribed procedures, the audit found that internal controls in other respects operated satisfactorily. Deliveries have taken place for all orders placed in the two-year period covered by the audit. Payments have been made by bank transfer to the business account of the supplier upon invoices certified correct on basis of receiving reports, and the items were taken into inventory. The receiving reports and invoice certifications were provided by officials not involved in placing the purchase orders.
11. The Chief Internal Auditor noted with satisfaction that the Office has been prompt in taking corrective actions. An international competitive bidding process was organized early in year 2000 by the Bureau of Internal Administration which has resulted in obtaining better prices from other sources for good-quality furniture. A recommendation by the Contracts Committee to split future purchases between the two suppliers with the lowest offers to provide ongoing competition and to evaluate the experience after two years was endorsed by the Treasurer and Financial Comptroller. Purchasing from the previous supplier stopped in mid-2000. Instructions were issued by the new Chief of the PROCUREMENT section to his staff to process purchase orders only on the basis of purchase requests properly formulated and approved. Instructions were also issued to all departmental heads to ensure advanced planning of necessary requirements to allow adequate time for all procurement processes, including price comparisons and competitive bidding as required by the Financial Rules.
12. The Chief Internal Auditor recommended that the procedures should ensure that a market evaluation, through competitive bidding, is made at least every two years to provide transparency as to selection of suppliers and price competitiveness; and that evidence of price comparisons is presented with each purchase order submitted for approval. He also recommended that the PROCUREMENT section provide, by means of a flow chart and short narratives, the purchasing procedures which will serve to give a clearer picture of the

procurement cycle and processing time and can be used to train staff of all units, current and future, to secure consistency in compliance with rules and instructions. It will also convey more clearly the importance to managers of early planning of needs and purchase requests.

Submission to the United Nations Joint Staff Pension Fund of separation documents and other data by its member organizations (MOs)

13. This was a horizontal audit by the UN and UN agencies as proposed and accepted at the 32nd (June 2001) Meeting of Representatives of Internal Audit Services (IAS) of United Nations Organizations and Multilateral Financial Institutions. According to records of the United Nations Joint Staff Pension Fund (UNJSPF), it took some member organizations (MOs), on average, from three to six months after the separation date of staff to submit the required documents to the UNJSPF. In some cases, the delay was more than one year. There were numerous discrepancies between the UNJSPF and MOs contribution records, a number of which have been outstanding for more than ten years. The objectives of the audit were to ascertain the adequacy and effectiveness of the internal controls governing the submission of separation documents and other data required by the Fund; determine the main reasons for the delays and other problems that have been experienced in connection with the submission of such data; and identify “best practices “ that can be recommended.
14. The main findings of the IAS were consolidated in a report by the Office of Internal Audit and Oversight of the United Nations and transmitted to all organizations. They showed that while there was an improving trend in the separation document processing time over the last few years, a number of organizations continued to experience problems resulting in considerable delays in processing separation documents and reporting data to the UNJSPF. The main causes identified were lack of formal documented procedures for the separation process; cumbersome and inefficient processing procedures of separation documents made in some cases manually; inadequate use of information technology systems to monitor the status of the separation process; communications problems both within member organizations and between the member organizations and the Fund. There were areas where improvements could be made by the UNJSPF, including, in particular, the establishment of criteria for the timing of the submission of separation documents, development of the electronic format for separation documents, and improvement in communication and training areas.
15. The audit in the ILO determined that the Financial Services Department has been consistently remitting its pension contributions to the Fund within the required time frame and thus has not incurred any interest penalties. Delays in processing separation documents in the ILO appeared to be less acute than in other MOs; delays that occurred related mainly to participants in the field. The problems were primarily attributed to inadequate procedures to ensure the timely collection of all information and data in the field and to the fact that many pension administration functions were still performed manually. The processing of separation documents can be improved in the ILO by: (i) enlisting more proactively the field HRD units in collecting the required information from members separating from the Fund in a better organized manner and on a timelier basis, that is to say, before separation takes place; (ii) improving the internal ILO form to allow better tracking of the processes involved to obtain the information and documentation required for separations arising from withdrawal, retirement, disability and death, as well as in situations of breaks in service and restoration and validation of participation; (iii) providing this ILO form on the HRD web site with instructions and guidance to participants on their completion; and (iv) developing automatic transfer of data between the ILO and the UNJSPF.

Field offices

16. In two offices visited (in North America), compliance with rules and regulations and performance in financial, personnel and administration work were found to be satisfactory. Both these offices needed, however, to train one additional staff in various aspects of the financial work and in operating the Financial Management System for external offices in order to provide back-up to ensure financial reporting at all times. They also needed to improve their work planning and reporting systems to achieve more effective use of staff resources and improve performance measurement capacity.
17. Operational activities in the two other offices visited (in Asia and Africa) were found satisfactorily controlled. Each office maintained a comprehensive work planning system in accordance with headquarters instructions and guidelines, but one office needed to organize more regular meetings of management with staff on work progress and constraints faced for timely adjustments, which was practised in the other office.
18. With regard to administrative activities, there were serious internal control deficiencies noted in both these offices. The office in Asia had not performed bank reconciliation statements for the five months preceding the audit. The IAO also found no regular independent checks on cash and negotiable instruments, inefficient use of the budgetary management tools, inadequate evidence of compliance with procurement rules and instructions, and weak controls over inventory.
19. In the other office, in Africa, a serious control weakness was found with regard to seminar and workshop activities, to which cash advances were often unnecessarily excessive and for which suppliers' bills were mainly settled in cash. In addition, most of the cash advances were booked directly to project accounts, bypassing the regulatory transitory account as required by the rules for monitoring purposes. Cash unspent on completion of the activities was not always immediately registered and accounted for, and there were substantial delays in completing seminar expenditure reports with supporting vouchers. Disbursement vouchers did not always reflect the correct payment mode. Established procurement procedures were not always followed with respect to these activities.
20. In response to these and other findings, the IAO made comprehensive recommendations to these offices to streamline work procedures to improve internal control, secure compliance with financial rules and regulations, and reduce risks of loss to assets. With regard to the office in Asia, better supervision is needed by management to ensure the prompt preparation of bank reconciliation statements and regular controls over cash and other valuables. To improve monitoring of RBTC expenditure and financial reporting on RBTC, the office needed to assign a separate project account number to each RBTC activity. A more effective use of the range of commitment numbers provided was required to improve budgetary control and financial monitoring with regard in particular to mission and external collaboration credits. Corrective measures were needed to improve the inventory recording, document the results of physical checks, comply with the six-monthly reporting requirements to headquarters on inventory, and improve on insurance administration in the process. To the office in Africa, the IAO recommended limiting cash advances for seminar expenses to cover only participants' DSA and small sundry expenditures required on the seminar/workshop site, and to settle the claims of suppliers of goods and services by cheque or bank transfer on the basis of receiving reports. These two measures would permit prompt reporting and accounting for expenditures made from the advances.
21. Regarding procurement activities in both these offices, procedures needed to be streamlined and the filing system improved to provide clear evidence of price comparison and justification of the vendor selected.

Technical cooperation projects

Advisory Support, Information Services and Training Programme (ASIST) in Harare

22. ASIST was established in 1990, first in Nairobi and then from 1994 in Harare to support labour-based infrastructure development initiatives in selected counties in East and southern Africa. It was in its third phase of operations, with funding from the Governments of Denmark (DANIDA), Norway (NORAD), Sweden (SIDA) and Switzerland (SDC), up to a total of US\$6.3 million. ASIST also received some financial support from the ILO regular budget, UNDP, and national multi-bilateral projects. Its objectives were to increase the use of cost effective labour-based methods and promote wide-scale adoption of employment-intensive approaches in national transport and infrastructure policies. Its activities consisted in providing consultancy, information and training services in labour-based technology to improve access to, and employment opportunities in, rural areas.
23. The administrative and financial performance, as well as compliance with rules and regulations, was found satisfactory overall. Expenditures were in accordance with financial authorizations and correctly reported. Budgetary control was satisfactory but could be enhanced by providing the administrative unit of ASIST read-only access to the Budget Management System for external offices. There was satisfactory work planning and monitoring of activities. Technical backstopping and policy support to ASIST was provided on an ongoing basis by the Employment-Intensive Investment Branch (EMP/INVEST) in the Employment Sector. Records examined indicated that ASIST had achieved appreciated results; some recognized outputs were acknowledged by evaluation missions. A Phase IV with funding from NORAD, DANIDA, SIDA and DFID (UK) was approved and started soon after the audit.

MAG/00/M01/NAD "Project HIMO-ROUTES 2000-03" (Labour-intensive road methods in Madagascar)

24. A nationwide project in Madagascar, "HIMO-ROUTES" was the third phase (2000-03) of a long-term programme, financed by NORAD since 1981, designed to alleviate unemployment and poverty by promoting the use of employment-intensive techniques and other local resources in the construction, rehabilitation, and maintenance of rural roads. The total initial budget for this phase was NOK 36,000,000, equivalent approximately to US\$4.35 million. The project aimed to: (i) build local capacity in small and medium size enterprises, consulting firms, public works and local administrations for the design, planning, implementation, follow-up and monitoring of labour-based rehabilitation and maintenance works of rural feeder roads; (ii) set up and implement a sound road maintenance system in the project area and also in NORAD-funded education projects in another locality; and (iii) strengthen and extend the existing road network. The project's long-term objective was to remove the obstacles to social and economical development constituted by the absence of rural roads practicable throughout the year in the areas of intervention, promoting at the same time employment and the development of small and medium enterprises in Madagascar.
25. Initial constraints faced by the project were gradually and successfully removed with the support of EMP/INVEST of the Employment Sector at headquarters in Geneva (responsible for technical backstopping) and the ILO area office in Antananarivo. Work planning (including workplan revisions) and reporting was made in accordance with established procedures and complied with the agreements signed with the donor. There was a requirement for regular independent audits in the project document and the Chief Internal Auditor recommended that the project ensures they are carried out. There was also satisfactory compliance with established rules and regulations for the procurement of equipment and supplies needed for project activities.

IND/99/02P/050 “Integrated area-specific approach against hazardous and exploitative forms of child labour” (IASP, India).

26. The Integrated area-specific approach has been adopted by IPEC since 1998. It includes the provision of non-formal education through NGOs, implemented by district-based registered National Child Labour Project Societies (NCLPS) functioning under the supervision of the Ministry of Labour (MoL). This methodology adopts clearer criteria for selecting interventions and partner institutions and better collaboration with other programmes of government and development agencies targeting women and children. The project IND/99/02P/050 was funded by the Governments of Sweden, Germany, Finland and the United Kingdom for some US\$2.8 million. Activities started in January 2000 and were scheduled to terminate at the end of 2002.
27. The technical and financial monitoring of project activities by IPEC Delhi staff, as well as compliance with rules and regulations with regard to financial control by IPEC headquarters, were found very satisfactory. There was budgetary provision made for monitoring and evaluation. The project document made no specific mention of the evaluation methodology. IPEC, however, engaged an external consultant in July-August 2002 to review achievements and draw lessons from strengths and weaknesses of the IASP approach that could be fed into an enlarged programme – funded by the Governments of the United States, United Kingdom and Italy – which was expected to be implemented as from 2003 in six major states of India for a combined total budget of over US\$30 million and a contribution of US\$20 million from the Government of India. Internal Audit noted with satisfaction that there was a provision for independent evaluation in two of the three concerned project documents for the enlarged programme and recommended that similar provision be made for the project funded by the Italian Government.

Investigations

28. The Office of Internal Audit and Oversight completed investigations in 2002 into two cases of alleged or suspected fraud, one of which was referred to in GB.283/PFA/6. In both cases, evidence was found confirming that accounts were falsified to conceal cash misappropriated. The total amount of the loss to the ILO was estimated at some US\$39,000. In the first case, persons involved in the fraudulent activities were removed from their duties and action taken by the Office to recover the loss was being pursued. The Committee on Accountability is currently reviewing the second case.

Monitoring of follow-up action

29. An Office circular providing guidelines to managers on follow-up for effective implementation of internal audit recommendations was issued in April 2002. Follow-up by the Chief Internal Auditor on implementation of audit recommendations is systematically and regularly made. Comprehensive reports received from the responsible managers indicate that the major recommendations of prior years have been implemented at the level of the units concerned. Statistics regarding implementation status with regard to recommendations made in 2001 are found in the annex.

Geneva, 23 January 2003.

Annex

Statistics of follow up to internal audit recommendations as per management implementation reports (2001)

	No. of recommendations	Percentage reported implemented
Staff Health Insurance Fund (SHIF) transitory accounts (HQ)	9	56
Projet d'Appui à la Réhabilitation de la Caisse Nationale de Sécurité Sociale (CNSS) au Gabon – GAB/00/02/IBR	14	100
Cash held at the Cash Office (HQ)	3	100
ILO Southern African Multidisciplinary Team (SAMAT), Harare	57	86
Area Office in Lusaka	69	86
Area Office in Pretoria	102	25
Cooperative Branch (HQ)	29	100
Office in Antananarivo	63	92
IPEC Project "Survey of activities of young people, South Africa" – SAF 98/05/051	16	100