

Board of the Centre

80th Session, Turin, 26-27 October 2017

CC 80/4/4

FOR DISCUSSION AND GUIDANCE

FOURTH ITEM ON THE AGENDA

**Report of the Chief Internal Auditor for the year ended 31
December, 2016**

Introduction

1. The Office of Internal Audit and Oversight (the IAO) of the International Labour Office provides internal audit services for the Centre. Chapter VIII, article 18(d) of the Financial Regulations stipulates that the Director of the Centre shall maintain an internal financial control and internal audit. The IAO's mandate is established under article 14.10 of the Centre's Financial Rules, which specifies that "the Internal Auditor shall carry out such independent examinations and make such reports to the Director or persons designated by the Director...in order to ensure an effective internal audit in accordance with Chapter VIII of the Financial Regulations."
2. The IAO's mission is to provide the Director of the Centre and the Board with an independent, objective assurance activity designed to add value and improve the Centre's operations. In its work, the IAO adopts a proactive approach to facilitating the assessment of risks and internal controls, and promotes a cohesive approach to risk management in support of management's processes to enhance efficiency, effectiveness and value for money in the activities of the Centre.
3. The IAO does not develop or implement 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.
4. The IAO's audit activities conform to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing.

Summary of audit results

5. In 2016, the IAO issued an assurance audit report relating to external collaborator services at the Centre. The audit did not identify any major control weaknesses. The results of the audit indicated that the fees charged for external collaborator services were reasonable and in compliance with the Centre's guidelines for remunerating external collaborators. However, the audit found opportunities to improve controls over advance and progress payments for external collaborators, which are not presented to the Treasurer for approval prior to the signature of the agreement, as required by the Financial Rules.

Review of External Collaborator Services

6. The Centre employs external collaborators primarily to prepare and deliver training courses in order to meet its training delivery targets. The Centre makes advance payments on occasion and processes progress payments to external collaborators for producing distinct pieces of work during the course of a particular engagement.
7. The audit found that there is no process to request the Treasurer to approve advance and progress payments for external collaborator services prior to the signature of the agreement. As a result, programme managers may conclude contracts with external collaborators with advance and progress payments without first obtaining approval from the Treasurer, which is not in compliance with the Centre's Financial Rules. Providing advance or progress payments increases the risk that if external collaborators deliver unsatisfactory work, the Centre would have limited recourse to

recover any advance payments. IAO found seven advance and progress payments in its sample of 50 contracts for which prior approval was not obtained from the Treasurer.

8. The audit also found that, on occasion, external collaborators' terms of reference specify that the Centre should make payments on the same date as the conclusion of the contract. As the Centre requires time to review the quality of the deliverables and to prepare the payments, specifying terms of reference that require final payments to coincide with the completion date of the contract creates unrealistic expectations and may result in the Centre being in breach of contract.

Audits completed and planned in 2017

9. IAO issued internal audit reports on the Changes to Procurement and Payment Processes and on the Management of Activities and Participants' database at the Centre on 2 February and 16 May 2017 respectively. IAO plans to conduct an audit of the Centre's training course evaluation processes in the fourth quarter of 2017.

This report is submitted to the Board for discussion and guidance.

Turin, 1 September, 2017