

Board of the Centre

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FOR INFORMATION

FIFTH ITEM ON THE AGENDA

Plan for the audit of the 2020 Financial Statements



**International Training Centre
of the
International Labour Organization**

EXTERNAL AUDIT PLAN

Financial Year 2020

About the Audit Plan

This audit plan will guide the delivery of our audit mandate in the International Training Centre (ITC), also known as the 'Centre', of the International Labour Organization (ILO) for the financial year 2020. This plan specifically presents our audit objectives that are based on the mandated functions; the basic audit work based on our audit approach and methodology; the audit milestones; and, the management of audit resources.

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Mandate and Scope of Work

1. The ILO Governing Body appointed the Chairperson of the Commission on Audit (COA), Republic of the Philippines, as the External Auditor of the International Labour Organization for financial years 2016 to 2019 inclusively, with the appointment that commenced on 01 April 2016 covering a period of four years. At the 334th Session in March 2018, the Governing Body extended the mandate for another two financial periods from 2020 to 2023 inclusively.
2. In accordance with the Financial Regulations of the ITC of the ILO, the external auditor of the ILO is also the external auditor of the Centre.
3. The Centre's Financial Regulations, Chapter IX, define the terms of reference governing the external audit. The regulations require that the external auditor's report to the Board on the audit of the financial statements of the Centre and on other matters that should be brought to its attention.

Overall Audit objectives

4. Our overall audit objectives are:
 - a. to express an independent opinion as to whether:
 - i. the financial statements present fairly, in all material respects, the financial position of the Centre as at 31 December 2020, and the results of its financial performance, its cash flows and the comparison of budget to actual amounts for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS);
 - ii. the accounting principles were applied on a basis consistent with that of the preceding financial year; and
 - iii. 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 Centre's 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 Centre (Chapter IX of the Financial Regulations).

Audit Approach and Methodology

5. In accordance with the requirements of the International Standards on Auditing (ISA), we will apply a risk-based approach in the audit of the Centre's financial statements as well as its operational management. The Centre is a learning institution with its own legal statute, risk assessment and strategy, individual structure and processes. Thus, we

will employ a realistic audit horizon strategy and approach to identify, prioritize and manage audit risks deemed to be critical to the Centre’s operations.

6. For the delivery of the audit approach and methodology, we primarily assess the risk maturity of the Centre by obtaining an understanding of the extent to which the Board and management identify, assess, prioritize, manage and monitor risks. This provides an indication of the reliability of our risk-based approach for audit planning purposes. The audit planning exercise, usually carried out on an annual basis, enables us to identify and prioritize those areas for which the stakeholders require objective assurance, including an assessment on the working effectiveness of the internal control system within the Centre, and the recording and reporting of individual or groups of risks. The communication of the results of our audit is the last phase of our audit methodology. This phase deals with the discussion of audit findings and the conclusion with the Centre’s management for their resolution.
7. Moreover, coordination with the ILO’s Office of Internal Audit and Oversight (IAO) was conducted to determine the nature and extent of their planned audit area and if there has been any work carried out by other external review bodies in the areas being audited. The nature and extent of any work done by an external review body will be considered in establishing the scope and objectives for our annual audit plan. Collective audit efforts were coordinated to the extent practical for this audit plan.
8. Further, the health crisis (COVID-19 pandemic) has forced us to adapt and utilize a virtual/remote audit modality for the continuity of our mandate. Necessary arrangements will be made with the Centre to facilitate the virtual/remote interim audit as well as the year-end, if performing an on-site audit is still not feasible.

Risk Perspectives and Audit Objectives

9. During the past four years of our audit engagement, we identified a number of relevant factors and changes within the Centre’s operations that we considered in our audit trajectories. While our observations do not warrant that risks indeed reside in several operational aspects of the Centre’s management, we plan to include this information into the current year of our audit mandate.

Financial Accounting and Reporting
<p style="text-align: center;">Context</p> <p>The financial statements of the Centre are consolidated with those of the ILO and are prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and its Financial Regulations. The consistent implementation of IPSAS is a significant achievement that raises the standard for financial reporting which is a critical element of governance and sound management. Its main benefits are increased transparency that provides a better understanding of ITC’s financial performance, greater accountability to make informed decisions, and improved financial information to support governance, and management.</p>

As external auditor, we are mandated to issue a report on the audit of the financial statements for each calendar year, which shall include information necessary regarding matters referred to in Chapter IX of the Financial Regulations. This is aimed at enhancing the degree of confidence in the ITC's financial statements, through examination of the accounts in the financial statements including related disclosures.

Risk Perspectives

Completeness. Reliability of information contained in the financial statements is achieved only if complete and relevant financial information is provided to the Centre and financial decision-making needs of the users. Therefore, information must be complete in all material respects. Incomplete information reduces not only the relevance of the financial statements, it also decreases its reliability and the risk that the users will base their decisions on information which only presents a partial view of the affairs of the Centre.

Judgments and Estimates. Accounts receivables and PPE comprise 38 and 16 per cent, respectively of the overall assets of the Centre as indicated in the 2019 Financial Statements. Estimates and judgments for their recognition and de-recognition are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Cut-off Procedures. Transactions may not be accounted for in the appropriate financial reporting year for both revenue and expense accruals due to the complexity of transactions in relation to the requirements of IPSAS financial reporting. This could result in incomplete revenue and expense figures, causing misleading results.

Accuracy and Valuation. The assertion of accuracy and valuation is a declaration that all figures presented in the financial statements are accurate, in all material aspects and based on proper valuation of assets, liabilities and net asset balances. The assertion is that the full amounts of all transactions were recorded, are fairly presented in all material aspects and properly classified within the statements.

Disclosures. Disclosures are a fundamental part of the financial statements, and seen as an increasingly important way to communicate deeper insights about the Centre's financial position and financial performance than is possible through the primary financial statements alone. IPSAS compliant financial reporting disclosure requirements and practices have evolved and resulted to higher volume of note disclosures that increases the risk that useful or relevant information may not be adequately disclosed.

Compliance with Regulations. Transactions are in accordance with Financial Regulations, Rules, and legislative authority.

Adoption of new IPSAS. The Centre adopts the updated and current standards required by the IPSAS Board and those that have an impact on its financial reporting.

Audit Objective

The audit objective is to form and issue an independent audit opinion on the financial statements of the ITC through the examination of evidence supporting the amounts and disclosures in the financial statements which includes the assessment of the accounting principles used and significant estimates made, as well as the overall presentation of the financial statement.

Training Programme Implementation and Delivery

Context

The Centre, as the training arm of the ILO, offers learning, knowledge sharing, and institutional capacity-building programmes for governments, workers' and employers' organization, and development partners. It aims to be a forum where development intersects with all forms of knowledge in the world of work, wherein relevance, quality, and impact are the core elements of the Centre's training programmes.

The Centre's two major sources of revenue are derived from the training activities and voluntary contributions. Training revenue totaled €7.45 million in 2019 (€1.63 million in 2018) which is 65 per cent of the total revenue of the Centre for 2019. Overall, the Centre delivered trainings to 22,339 participants in 2019 as compared to 18,411 participants, in 2018. The increase for face-to-face and distance learning activities is 2,059 participants (19.3 per cent) and 1,869 participants (24.1 per cent) respectively.

On the other hand, of the total 2019 expenditure of €1.25 million, 46 per cent relates to Staff costs for a total amount of €19.03 million while, €3.55 million or 9 per cent pertains to other costs related to training activities which is the fourth largest expenditure after sub-contracts and travel.

As technology continues to evolve and given the current pandemic affecting business operations (under the "*new normal*" with world-wide compliance to health protocols), the process of training, informing, or educating people is evolving. To ensure business continuity during this period and beyond, management took immediate actions to mitigate the impact of the pandemic on its business operations. This included the rescheduling of face-to-face training activities to later in the year, the conversion of face-to-face training activities to online modalities using new technology and innovative approaches, increasing its services to constituents to assist them through consulting services, and the adoption of cost containment measures.

Now more than ever, the environment in which the Centre operates is characterized as complex, with an increased volatility and uncertainty. This complexity not only offers new opportunities to the Centre, but additional risks that the Centre must mitigate, always mindful of its institutional role.

Risk Perspective

The COVID-19 pandemic affecting global health and leading to travel restrictions represent an unprecedented challenge in the pursuit of learning and training. The significance of efficient delivery and management of training services can be

encapsulated into the following three perspectives, namely: policy, strategy, and resources:

Policy. The lack or absence of appropriate policies, procedures, and methods responding to the *new normal* in the implementation and delivery of the Centre's core business, its training services, and which may threaten its business continuity.

Strategy. The absence of an optimum strategy may put in peril its financial sustainability as well as the delivery and implementation of its training programmes. Specifically, the Centre's change in the service formula underpinning face-to-face training, investing in new product development and up to date training technology amidst the pandemic, may be affected.

Resources. Previous audit risk assessments revealed that the Centre continues to face funding and revenue generation challenges due to the ongoing economic climate and specialized training needs in many countries. Currently with the ongoing pandemic: a) the sufficient financial resources to fund its training activities; b) the dynamic information technology capabilities to use; and; c) the adequate and capable human resources to work with the new strategy of training programme implementation and delivery (affecting the attainment of the Centre's strategic objectives and institutional mandate) may be at risk.

Audit Objective

The general objective of this audit is to **assess the plan and actions taken by the Centre amidst the Covid-19 pandemic in terms of adequacy and efficiency of its policies, implementation strategy, and resources to ensure that the core business of the Centre, its training programmes, are continuously implemented and delivered.**

Specifically, the audit aims to determine whether:

- a. the current strategic arrangements for training services and the learning approach are covered with appropriate and adequate policies to respond to the pandemic using the most appropriate and up-to-date technology;
- b. the adequacy and efficiency of strategy, methods, procedures and controls covering its training service delivery and implementation which are in place to support the operational requirements and pursue institutional mandate of the Centre in the so called *new normal*;
- c. the funding requirements are sufficient, human resources are adept and information technology are capable in coping with the complexity of the current business environment (e.g. global economic and health crisis).

The need to go digital for distance learning and online training service is eminent and pivotal. Hence, the primary focus is the review and evaluation of the policy especially the business continuity plan concerning contingencies such as the pandemic where business veers off course from the traditional learning method such as face-to-face and blended courses and turning into digital and online format of delivery. The review of

the Centre’s strategic plan including its elements, templates, and tools in addressing events that may disrupt business operations. The assessment of human resources, information technology capabilities and the capacity of the Centre to generate revenue streams that enable it to meet the costs and demands of the training service strategy and innovations including the moving of courses online, training the trainers, upgrading the e-Campus and mobilizing digital workforce, among others.

Audit Materiality

10. Our audit requires us to determine a materiality for each engagement. This amount is also used to evaluate the significance of uncorrected misstatements (*past* adjustments and reclassifications) noted during the audit. Our initial working materiality is presented below:

	Basis	Amount
Overall Materiality	two per cent of the average total expenses of the Centre from the last five years	€782,900.00
Unadjusted and adjusted items in excess of this amount will be reported to management	five per cent of overall materiality	€39,145.00

11. We considered the following factors in establishing materiality: the needs of the Centre and other contributors, representatives of governments, employers and workers and other multilateral agencies. This is consistent with the materiality level used for the 2019 financial statements audit. 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. The Centre will be given an update on the final determination of mater.

Planned Work

12. For the fifth year of the audit engagement, the following activities shall be undertaken to update the External Auditor’s information and documents about the Centre:

Activities	Month											
	2020						2021					
	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Audit Risk Assessment and Management												
- Assessment of major risk indicators												
- Assessment of need/use of Work of Others												

Activities	Month											
	2020						2021					
	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
- Create time budget/ planning meeting												
Understand Auditee Operations												
- Risk Management Process and Fraud Risk Assessment												
- Operations analysis and performance review												
- Analysis of critical information processes including financial reporting												
- Financial Statements linkage determination												
- Review of PBCs												
Assess Risk Management and Controls												
- Assess risk management strategies and controls to reduce risk to an acceptable level (entity-level and process level risks)												
Manage Residual Audit Risk												
- Respond to identified FS error risks												
- Perform substantive audit tests/confirmations												
- Perform analytical procedures on low risk material accounts												
- Overall review of FS for reasonableness												
- Perform subsequent review procedures												
Communicate Value Delivered												
- Issuance of Audit Observation Memorandum												
- Issuance of Management Letters												
- Issuance of Audit Report/Long Form Report												
- Presentation of Audit Report to the Board												

13. Detailed Audit Work Plans and Programs, including audit procedures and the specific audit objectives were developed for each audit area identified.

Significant Audit Deliverables

a. At the conclusion of the audit, we will provide the following reports:

- **Independent Auditor’s Report.** This is a signed opinion on the financial statements as at 31 December 2020; and

- **Report of the External Auditor to the Board.** This will contain our findings with respect to the efficiency of the financial procedures, the accounting system, financial controls and, in general, the administration and management of the Centre, and all matters referred to in Chapter IX, Article 25 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.
- b. In addition, we will provide management with the following reports during the course of our audit:
- **Management Letter to the Centre Director.** A derivative communication that identifies opportunities for changes in procedures that would improve systems of internal control, streamline operations, and/or enhance financial reporting practices.
 - **Audit Observation Memoranda.** A written communication to concerned staff and officials informing them of the deficiencies observed in the audit of accounts, operations or transactions.

Significant Audit Milestones

Activity	Date
Presentation of Audit Plan	October 2020
Interim Audit	09-27 November 2020
Year-end Audit	08-26 February 2021
Signed Audit Opinion	08 March 2021
Presentation of Audit Results to Officers of the Board	May 2021

Other Audit Services

14. As the Centre's external auditor, we expect to perform audits based on requests by the Centre's donors. Separate Terms of Engagement will be prepared thereof.

Planned Field Works

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
Interim audit ITC of the ILO	A. Financial Audit: Review the compliance of the accounting and reporting process pertaining to all accounts composing the financial statements.	4	AOM

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	<p>Based on the assessment of the degree of reliance on internal controls resulting from the risk assessment, perform substantive testing covering the period from January to September 2020: (a) minimum substantive testing for non-significant accounts; while (b) standard, or focused substantive as well as control testing will be undertaken on the following expenditure accounts:</p> <ol style="list-style-type: none"> 1. Staff Cost 2. Staff benefits 3. Sub-contracts 4. Travel 5. Other Costs related to Training Activities 6. General Operating Expenses <p>B. Preliminary review of training programme implementation and delivery – audit work will include process review, policy and strategy evaluation, securing pertinent documents, queries, and others (off-site field work, virtual or remote audit).</p>		
<p>Year-end audit ITC of the ILO</p>	<p>A. Financial Audit:</p> <p>Review compliance with accounting and reporting process as well as to new standards pertaining to Statements I-V composing the financial statements including all the accounts and their disclosures. The audit objective is to determine whether the transactions that have come to our notice during the audit of the FS have, in all material respects, been recorded/recognized in compliance with the Centre’s Financial Regulations and legislative authority, as well as with the different accounting assertions, standards and policies in the preparation of the FS</p>	<p>4</p>	<p>Management Letter Independent Auditor’s Report Long Form Report</p>

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	<p>to eventually come up with an opinion on whether the year 2020 FS are fairly presented in all material respect in accordance with the IPSAS.</p> <p>Test of balances and substantive testing (minimum, standard, or focused) as well as control testing depending on the nature of the accounts (significant or non-significant).</p> <p>Conduct of the financial performance review of the Centre including the review of the following significant accounts:</p> <p><i>Assets</i></p> <ol style="list-style-type: none"> 1. Cash and Cash Equivalents 2. Accounts Receivable 3. Contributions Receivable 4. Property and Equipment 5. Intangible Assets <p><i>Liability</i></p> <ol style="list-style-type: none"> 1. Employee Benefits <p><i>Revenue</i></p> <ol style="list-style-type: none"> 1. Training Revenue 2. Voluntary Contributions <p><i>Expenditure</i></p> <ol style="list-style-type: none"> 1. Staff Costs; 2. Sub-contract; 3. Travel; 4. Other Costs related to Training Activities; 5. General Operating Expenditures; 6. Buildings and ground maintenance 7. Supplies 8. Depreciation 9. Bank charges <p>B. Review of compliance with new Standards</p>		

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	<p>C. Follow up the implementation of prior years' audit recommendations.</p> <p>D. Continue the review of training programme implementation and delivery – review, evaluation and validation of the preliminary audit works (on-site fieldwork, if warranted).</p>		

Audit Management

15. 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 clientele to improve its governance and provide users of financial statements with a higher level of assurance that our client's processes are effective as to their design and operation. To this end, the International Audit and Relations Office (IARO) of the Commission on Audit is the main focal point in the management of our international commitments.
16. The audit of the Centre will be performed by a team composed of experienced, competent and professional auditors from the Commission on Audit solely dedicated in the audit of the Centre. Effective manning strategies are adopted in the deployment of the auditors that include effective skills mixing, bespoke technical trainings and adequate support mechanisms.
17. To ensure the quality of our audits, we observe the ISA Standards on audit quality. Our audits shall undergo a three-level review commencing with the Director, External Audit and assisted by the Technical Support Group. The second level review emanates from the International Audit Oversight Committee that performs a set of quality assurance procedures to ensure that audit information and reports are of a high level of integrity before these are escalated to the third and final level of review. The Chairperson, Commission on Audit, Philippines performs the final review of our outputs and is also consulted on sensitive, complex, and/or difficult issues with the support of the Director of IARO.