INTERNATIONAL TRAINING CENTRE OF THE ILO

Board of the Centre

80th Session, Turin, 26-27 October 2017

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FOR INFORMATION

FOURTH ITEM ON THE AGENDA

Plan for the audit of the 2017 Financial Statements

International Training Centre of the International Labour Organization

AUDIT PLAN

Financial Year 2017

About the Audit Plan

This audit plan will guide the delivery of our audit function in the International Training Centre, also known as the ‘Centre’, of the International Labour Organization (ITC-ILO) for financial year 2017. This plan specifically presents our audit objectives that are based on the mandated functions; the basic audit works based on our audit approach and methodology; the audit milestones; and, the management of audit resources. This audit plan lays out our audit trajectories based on the results of our first year of audit engagement which are bound to evolve as our audit progresses.

Contents

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, with the appointment that commenced on 01 April 2016 covering a period of four years.

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, defines the terms of reference governing the external audit. The regulations require that the external auditor 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 2017, 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);

        ii. the accounting principles were applied on a basis consistent with that of the preceding financial period; 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 alignment to 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 statutes, with its own risk assessment and strategy, different structure, and different processes. Thus, we employed 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 to audit for audit planning purposes. The audit planning exercise, usually on an annual basis, enables us to identify and prioritize those areas for which the stakeholders require objective assurance, including assessment on the working effectiveness of internal control system within the Centre, and the recording and reporting of individual or groups of risks. The communication of the value delivered by our audit is the last phase of our audit methodology. This phase deals with the discussion of the audit findings and conclusion with the Centre's management for their resolution.

Risk Perspectives and Audit Objectives

7. During the first year of our audit engagement, we determined 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 have planned to input this information into the second year of our audit mandate.

Financial Reporting
Context The financial statements of the Centre are consolidated with those of the ILO and are prepared in accordance with International Public Sector Accounting Standards (IPSAS) and its Financial Regulations. The preparation of IPSAS compliant financial statements requires management to make judgments, estimates and assumptions. Management considers assumptions and estimates on the provisions for doubtful accounts and useful life of property, plant and equipment (PPE) as significant. We noted that the provision for doubtful accounts is based on the probability of collection of accounts receivable and on information on hand at the time at which the estimate is made. The Centre applies an approach based on a one-on-one review of each account receivable over a certain age. We noted that IPSAS compliant financial statements are also prepared on an accrual basis. This means that transactions and events are recorded and recognized in the financial year in which they are either earned or incurred. This requires the Centre to perform closure activities with varying forms of complexities. **Risk Perspectives** **Completeness.** Reliability of information contained in the financial statements is achieved only if complete financial information is provided relevant 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 be establishing their decisions on information which only presents a

partial view of the affairs of the Centre.

Judgements and Estimates. Accounts receivables and PPE comprise 16 and 30 per cent, respectively of the overall assets of the Centre as of 31 December 2016. Estimates affecting these accounts may be considered significant and may correspond to higher risk.

The following are potentially significant estimates that represent a higher risk:

- Provision for doubtful accounts
- Useful lives of property and equipment

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.

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 which increases the risk that useful or relevant information may not be adequately disclosed.

Audit Objective

To obtain reasonable assurance that the financial statements are free of material misstatements, are fairly presented and disclosures are adequate with the end view of issuing an audit opinion.

Purchasing, Payables and Payments Processes

Context

Management is responsible for the Centre's compliance with its Financial Regulations and Rules.

Compliance is vital especially in the purchasing, payables and payment processes of the Centre. The procurement of goods and services is an intricate process involving many stakeholders, and has an impact on all aspects of the Centre's operations.

Risk Perspectives

Purchase processing

- *Manage requirements:* defining the requirements, determining the corresponding expenditure initiation authority and preparing the requisition for goods and services.

- *Control commitments:* ensuring that sufficient unencumbered funds are available as well as creating and updating commitments prior to entering/amending a contract.

- *Manage contracts:* creating and/or amending a contract, and determining and exercising the appropriate transaction authority.

Payable processing

- *Administer contract and deliverables:* monitoring the contract, the receipt and acceptance of deliverables and resolving vendor issues.
- *Manage payables:* processing invoices, completing the account verification, and providing certification authority.

Payment processing

- *Manage payments:* performing quality assurance activities where applicable, certifying payments, and finalizing payments.

These are the disbursement processes which emphasize contributions to the Centre's performance or the unsustainable risk the Centre would undergo if these processes or activities were to fail.

Audit Objective

Determine whether the key controls over the Centre's Purchasing, Payables and Payments Processes are effective and functioning to ensure that the Centre complies with the Financial Rules and Regulations, IPSAS and internal controls.

Processes critical to the Centre's operations

Context

The Centre is the training arm of the International Labour Organization (ILO), a United Nations agency entrusted with promoting social justice, including internationally recognized human rights and labour standards. Thus, it provides training in subjects that further the ILO's pursuit of decent work for all and ensures that this training for the world is relevant and appropriate to local needs, aspirations and conditions.

The Centre is strongly reliant on earned revenue from the Training Department. In 2016, about 56 per cent of all revenue generated by the Centre was revenue from training while another 38 per cent stemmed from fixed contributions from the Government of Italy and the ILO to cover running costs; another 6 per cent of revenue was generated from the production and sales of publications and miscellaneous. In the same year, the source of voluntary contributions consists of 62.06 per cent from the Government of Italy, 30.03 per cent from the ILO, 5.93 per cent from the City of Turin and 1.93 per cent from the Government of Portugal.

Overall, the Centre generated training revenue as expected in the first year of a biennium which is within the average of approximately 46 per cent of the total biennium cycle and the Centre is well on target to achieve its biennium approved budget for 2016-17.

Voluntary contributions increased compared in 2015 mainly due to the receipt of the City of Turin’s annual contribution of €250 000 for the years 2013, 2014 and 2015.

To sustain the training activities of the Centre, the audit is geared towards ascertaining the optimal use of the Centre’s resources to generate revenue as well as its processes in promoting cost efficiency.

Risk Perspectives

Oracle upgrade. The costs incurred by the Centre to directly support the training activities total to approximately 74 per cent of the total costs structure. Corporate overhead costs accounted for 26 per cent but the Centre intends to cut overhead costs by streamlining its processes. In the first quarter of 2017, the Centre upgraded its Oracle ERP solution because the older version of the platform was no longer supported by Oracle. In this case, there may be a risk related to the accuracy and integrity in migrating financial data from the legacy application (an older version of the Oracle platform) and in the capacity of the staff as system users thus affecting the effectiveness and efficiency of using the upgraded Oracle.

Travel process. The goal of this process is the complete and integrated management of all processes covering staff official travel and the travel-related expenses. The process includes the entire procedure of requesting and planning travel and accounting for travel expenses. The risk that correct recognition of the travel expenses is not in accordance with the rules of the Centre and IPSAS and best value for money was not ensured.

Participant’s admission process. Involves the procedures of screening participants. The risks are related to the failure to adhere to the admission requirements in order to achieve the required number of participants for specific training programs.

Audit Objective

To provide assurance as to whether there were adequate and functioning strategy, policy and effective controls on these processes.

Audit Materiality

8. Our audit requires us to determine a specific amount of 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	€751,880
Unadjusted and adjusted items in excess of this amount will be reported to management	five per cent of overall materiality	€37,594

9. 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 2016 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 materiality.

Planned Works

10. For the second 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											
	2017							2018				
	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												
- 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												

Activities	Month											
	2017							2018				
	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
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												

In the Philippines　　At ITC

11. Detailed Audit Work Plan 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 2017; 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.** 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	26 and 27 October 2017
Interim Audit	13 to 24 Nov 2017
Year-end Audit	19 Feb to 02 March 2018
Signed Audit Opinion	12 March 2018
Presentation of Audit Results to Governing Body	May 2018

Other Audit Services

12. 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

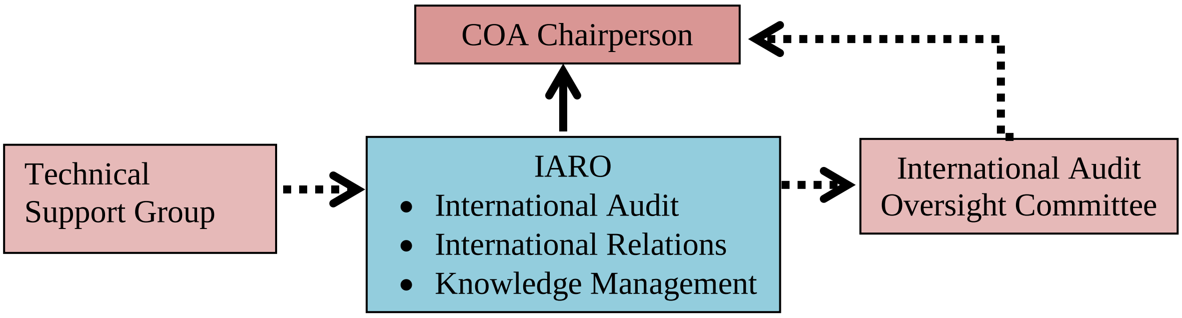
Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
Interim audit **ITC of the ILO** 13-24 November 2017	A. Financial Audit: Review the compliance of the accounting and reporting process pertaining to all accounts composing the financial statements. Based on the assessment of the degree of reliance on internal control resulting from risk assessment, perform substantive testing covering the period from January to August 2017: (a) minimum substantive	3	Management Letter

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	testing for non-significant accounts; while (b) minimum, standard, or focused substantive testing for all significant accounts. B. Review of Purchase, Payable and Payment processes.		
Year-end audit ITC of the ILO 19 February to 02 March 2018	A. Financial Audit: Review the compliance of the accounting and reporting process pertaining to Statements I-V composing the financial statements including all the accounts and their disclosures. Test of balances and substantive testing (minimum, standard, or focused) depending on the nature of the accounts (significant or non-significant). B. Review of processes critical to Centre's operations	3	Management Letter Independent Auditor's Report Long Form Report

Audit Management

13. 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 its 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) is the main focal point in the management of our international commitments.

14. The governance structure of the IARO is presented below:



15. The audit of the Centre will be performed by a team composed of experienced 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.

16. 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.