

Board of the Centre

79th Session, Turin, 27-28 October 2016

CC 79/3/5

FOR DISCUSSION AND GUIDANCE

THIRD ITEM ON THE AGENDA

Report of the Chief Internal Auditor for the year ended 31 December, 2015

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.
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Summary of audit results

5. In 2015, the IAO issued two assurance audit reports related to the Centre's activities:
 - The first report concerned the IAO's audit of procurement. The IAO found no major control weaknesses in the Centre's procurement processes. As noted in the IAO's previous report on procurement in 2008, the Centre is not maximizing the use of ORACLE's capabilities to support procurement process. At the time of writing this report, the Centre has a project underway to implement an automated process in the ORACLE system including approval workflows. Implementation is planned for mid-September 2016.
 - The second report presents the results of the IAO's review of publication services. The IAO found that while the Centre's Multimedia Design and Production Unit (MDP) provides publication services to both internal and external customers and generates revenue, IAO's preliminary analysis indicated that MDP was not consistently a net contributor to fixed costs. The IAO's review of the Centre's purchase of an offset printing machine, used to produce internal and external publications, found that the Centre followed due process and purchased the printing machine at a reasonable cost.

Review of Procurement

6. The IAO reviewed all major contracts the Centre issued in order to renovate the EUROPE pavilion, and noted that the Centre completed the renovation works within planned budgets and ahead of schedule. The IAO had no comments to make on improving procurement practices for the contracts reviewed, and commends the Centre for its achievements regarding the renovation.
7. At the time of audit, the Centre was not maximizing the potential of ORACLE to streamline its workflows. The Centre was aware of this issue and is in the process of reviewing procurement and other workflows with the aim of automating them. The project has progressed since IAO's audit and implementation is planned for September 2016.
8. The Centre does not have a procurement manual to circulate to all staff involved in the procurement process. As the Centre operates a decentralized procurement activity, having a manual is important to ensure that all involved staff perform procurement activities consistently to respect the principle of obtaining value for money.
9. The IAO's review of all waiver requests submitted between August 2011 and November 2014 found that the Centre's officers approved all waivers in accordance with the Centre's rules. The reasons for requesting the waivers were primarily due to insufficient time to conduct the full procurement process. In the context of annual budgeting, the uncertainty as to when funds will be received can present difficulties in planning major procurement. In this regard, the move towards biennial budgeting should offer the Centre an opportunity to better plan its procurement activities. The IAO recommended that the Centre carry out a complete review of all of its large contracts and prepare a procurement plan. Doing so would provide sufficient time to prepare, receive and analyze all tenders to avoid having to renew several contracts concurrently. The Centre has implemented this recommendation and established a procurement plan.

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10. The Centre revised its terms of reference for the Contracts Committee in February 2014. However, the IAO found that there is scope for further amendment to clarify the procedures for recommending bids and for rotating the Chairperson. In addition, although the current committee members are experienced, the IAO recommends that all committee members receive training on procurement to ensure that they are aware of procurement best practices.

Review of Publications Services

11. The audit found that the Centre did not undertake a cost-benefit analysis to identify the relative merits of maintaining all, or some, of the publication services provided by MDP in-house. As a result, management does not have comprehensive data on the full operational and cost implications of maintaining its publications services in-house. The audit also found that MDP does not have a clear marketing strategy for its publication services to potential customers which include the International Labour Organization, other United Nations agencies as well as international and non-government organizations. As a result, opportunities to generate additional revenue may be lost by not fully utilizing its publications services offerings.
12. In addition, MDP has not defined service level agreements, including definitions of the services it provides for its service offerings. As a result, the expectations of its internal customers may not be fully met, and disagreements and misunderstandings as to the specifications of the publications services provided may arise. Best practice in relation to service level agreements already exists at the Centre with ICTS and this could also be adopted by MDP.
13. The IAO also found that MDP does not systematically collect all overdue receivables and extends credit to customers with overdue receivables balances. The IAO found that, as at 30 June 2015, receivables for nine customers totaling €112,000 were overdue by 191 days on average. IAO recommends that MDP establish a systematic basis to contact customers with overdue balances after a certain number of days and follow-up with them on a monthly basis.
14. In addition, MDP does not prepare detailed annual revenue forecasts by customer. As a result, the Centre may not collect all sufficient revenue due for the publications services it provides, and annual budgets, including revenue and fixed cost recovery targets, may not be realistic.
15. Furthermore, there is no systematic independent review of the translated content of documents provided by external collaborators and the internal translator assigned to MDP. As a result, the translated content of certain publications the Centre provides may contain undetected errors which could result in a reputational risk to the Centre.

Audits underway during 2016

16. At the time of writing this report, the IAO has completed the field work for the audit of external collaborators at the Centre and the report is undergoing final clearance.

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

Turin, 30 June, 2016