

Board of the Centre

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FOR INFORMATION

FOURTH ITEM ON THE AGENDA

Plan for the audit of the 2018 Financial Statements



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

AUDIT PLAN

Financial Year 2018

About the Audit Plan

This audit plan will guide the delivery of our audit mandate in the International Training Centre, also known as the 'Centre', of the International Labour Organization (ITC-ILO) for the financial year 2018. 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. This audit plan lays out our audit trajectories based on the results of our audit engagements which are bound to evolve as our audit progresses.

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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, 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 2018, 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 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. We will also audit the Centre's operational management. The Centre is a learning institution with its own legal statutes, with its own 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 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.
7. Moreover, coordination with the Office of Internal Audit and Oversight (IAO) of the ILO 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.

Risk Perspectives and Audit Objectives

8. During the first two 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 have planned to input this information into the current year of our audit mandate.

Financial Statement Presentation 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 International Public Sector Accounting Standards (IPSAS) and its Financial Regulations. The preparation of IPSAS compliant financial statements requires management's attestation on the financial statement assertions. Financial statement assertions, also referred to as management assertions, are the explicit or implicit assertions made by the management regarding the fundamental accuracy of information contained in its financial statements. Financial statement assertions can be viewed as the Centre's official statement that the figures in its financial statements, such as the Statement of Financial Position and Statement of Financial Performance, are a truthful presentation of its assets and liabilities in accordance with the applicable standards for recognition and measurement of such figures.</p>

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 18 and 31 per cent, respectively of the overall assets of the Centre as indicated in the 2017 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. There is a risk that changes in accounting estimates may not be considered necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or experience.

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. For example, the assertion of accurate valuation regarding the liabilities for employee benefits of the Centre should be reported at a discounted value rather than nominal value. The assertion is that the full amounts of all transactions were recorded and disclosed.

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 appropriate audit opinion.

Human Resource Management – Recruitment Process and Staff Performance Evaluation

Context

Staff cost is the largest expenditure of the Centre. It comprises 47% of the total expenses of 2017. Thus, integral to the human resources is the recruitment process. Successful recruitment is a direct reflection of the validity and professionalism of the business. Employing the right people for the business is the most important part of the organization. It is essential to have a good recruitment process to attract the right kind of staff for business needs.

The audit of the recruitment process will be directed on cost as well as time effectiveness. Recruitment can be expensive and time consuming, there ought to be assurance that in recruiting, processes for the right choices of a staff is in place.

A good recruitment process can minimize the time involved in the search of candidates, the interviews, the selection and the actual hiring work. It can streamline the overall process and make the search for viable candidates much more efficient. It is vital to build a positive image to the stakeholders.

Moreover, the audit will also focus on staff performance evaluation:

- the establishment and implementation of adequate governance processes, framework and policies to support staff performance management;
- adequate and effective processes and tools have been established and effectively employed to support awareness and consistent implementation of staff performance management; and,
- adequate and effective monitoring and reporting activities have been established to enable strategic integrated decision making (e.g. Talent Management, Succession Planning, Professional Development and Learning, etc.).

With the performance evaluation, the assessment of the current performance management process is highlighted using current data to improve or present a value adding recommendation to the area of performance evaluation.

Risk Perspectives

The compliance with the Centre's recruitment and performance evaluation policies. The lack of lessons-learned to be considered for the performance evaluation cycle and talent development. These will impact the human resource management decision-making process such as staff availability, staff movements, succession planning, and capacity building. The lack of feedback a staff may receive regarding their performance, strengths and weaknesses is invaluable in charting a future course in which the Centre and staff can put their interests and talents to the best use and the achievement of the Centre's objectives.

Audit Objectives

The audit aims to assess the following:

- the existence, efficiency and effectiveness of the recruitment and staff performance management frameworks and policies;
- the recruitment and staff performance evaluation strategies and initiatives are in place; and
- the processes and procedures are working effectively.

Audit Materiality

9. 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	€769,872.00
Unadjusted and adjusted items in excess of this amount will be reported to management	five per cent of overall materiality	€38,493.60

10. 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 2017 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 Work

11. For the third 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											
	2018						2019					
	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												
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 ■

12. 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 2018; 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 2018
Interim Audit	29 October to 09 November
Year-end Audit	18 February to 01 March 2019
Signed Audit Opinion	11 March 2019
Presentation of Audit Results to Governing Body	May 2019

Other Audit Services

13. 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
<p>Interim audit ITC of the ILO 29 October to 09 November 2018</p>	<p>A. Financial Audit:</p> <p>Review the compliance of the accounting and reporting process pertaining to all accounts composing the financial statements.</p> <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 2018: (a) minimum substantive testing for non-significant accounts; while (b) standard, or focused substantive testing will be undertaken on the following expenditure accounts:</p> <ol style="list-style-type: none"> 1. Staff Cost 2. Sub-contracts 3. Travel 4. Other Costs related to Training Activities 5. General Operating Expenses 	2	Management Letter
<p>Year-end audit ITC of the ILO 18 February to 01 March 2019</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 year end audit of the FS have, in all material respects, been recorded/recognized in compliance</p>	3	Management Letter Independent Auditor's Report Long Form Report

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	<p>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 year end FS to eventually come up with an opinion on whether the CY 2018 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) 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>Liability</i></p> <p>1. Employee Benefits Liability</p> <p><i>Revenue</i></p> <p>1. Training Revenue; and 2. Voluntary Contributions</p> <p><i>Expenses</i></p> <p>1. Staff Costs; 2. Sub-contract; 3. Travel; 4. Other Costs related to Training Activities; and 5. General Operating Expenses</p> <p>B. Compliance with new Standards</p> <p>C. Review of Human Resource Management with focus on recruitment and performance evaluation process</p>		

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	D. Follow up implementation of prior year's audit recommendations		

Audit Management

14. 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.
15. 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.
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.