

# Board of the Centre

86th Session, October 2022

**CC 86/4/2**

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FOR INFORMATION

FOURTH ITEM ON THE AGENDA

Plan for the audit of the 2022 Financial Statements

2022



International Training Centre

# EXTERNAL AUDIT PLAN

COMMISSION ON AUDIT  
Republic of the Philippines



# 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 2022. This plan specifically presents our audit objectives and scope based on our audit mandate; the basic audit works consistent with our audit approach and methodology; the audit milestones; and the management of audit resources. Our audit will be conducted in accordance with the International Standards on Auditing.

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## Mandate and Scope of Work

1. The Governing Body of the ILO appointed the Chairperson of the Commission on Audit (COA), Republic of the Philippines, as its External Auditor for financial years 2016 to 2019, with an appointment that commenced on 01 April 2016. At the 334<sup>th</sup> Session in March 2018, the Governing Body extended the audit mandate of COA for another four financial years from 2020 to 2023 inclusively.
2. In accordance with the Financial Regulations of the International Training Centre (ITC) of the ILO, the External Auditor of ILO will also be the external auditor of the ITC.
3. The Centre's Financial Regulations, Chapter IX, define the terms of reference governing the external audit. The Regulations require that the External Auditor shall 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 and to add credibility as to whether:
    - i. the financial statements present fairly, in all material respects, the financial position of the Centre as at 31 December 2022, 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 financial statements have been prepared in accordance with the stated accounting policies;
    - iii. the accounting principles were applied on a basis consistent with that of the preceding financial year; and
    - iv. the transactions that have come to our notice during the audit of the financial statements have, in all significant respects, complied 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. Our audit is guided by the requirements of the International Standards on Auditing (ISA), and we apply a risk-based approach in the audit of the Centre's financial statements. On the other hand, we perform the audit of the operations in accordance with the International Standards of Supreme Audit Institutions (ISSAI) 300 – Performance Audit Principles, ISSAI 3000 – Standard for Performance Auditing, and ISSAI 3100 –

Performance Audit Guidelines: Key Principles. 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 critical to the Centre's operations.

6. In the delivery of the audit approach and methodology, we will 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 framework 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 areas and if there has been any work carried out by other external review bodies in the areas being audited. Hence, these are considered in establishing the scope and objectives for our audit plan. Collective audit efforts were coordinated to the extent practical for this audit plan.
8. Notwithstanding the health crisis (COVID-19 pandemic), in an effort to adapt to a *new normal*, a physical (face-to-face) audit approach is intended for the continuity of our mandate.

## Risk Perspectives and Audit Objectives

9. During the past six years of our audit engagement, we identified several relevant factors and changes within the Centre's operations that we considered in our audit trajectories. While our observations do not warrant that those 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 Audit

#### Context

The financial statements of the Centre are consolidated with that of the ILO and are prepared in accordance with IPSAS as well as 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. IPSAS' main benefits are increased transparency that provides a better understanding of the Centre's financial performance, greater accountability to make informed decisions, and improved financial information to support governance and management. As External Auditor, we are mandated to issue a report on the audit of the financial statements for each financial period, 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 Centre's financial statements, through examination of the accounts in the financial statements including related disclosures.

### Risk Perspective

**Accounting and reporting controls.** Effective internal control over financial accounting and reporting provides reasonable assurance regarding the reliability of financial reports. If one or more material weaknesses exist, the Centre's internal control over financial accounting and reporting cannot be considered effective. In view of the upgrade in Oracle and update in the related module such as Hubble including the changes in some key financial processes and requirements to ensure continuity of operations in the event of teleworking, inadequate controls over processes and application systems may expose the Centre to a number of risks which include significant loss or underutilization of its resources, invalid processed transactions that would adversely affect decision-making, and could lead to costly compensating controls, reduced system availability and reputational risk.

**Completeness.** Reliability of information contained in the financial statements is achieved only if complete and relevant financial information is provided by the Centre and users' financial decision-making needs are met. Therefore, information must be complete in all material respects. Incomplete information reduces not only the relevance of the financial statements, but it also decreases their reliability and increases the risk that users could base their decisions on information which could be misleading as it would only present a partial view of the affairs of the Centre.

**Judgments and Estimates.** Since judgements and estimates are very subjective in nature, they may be susceptible to inappropriate processes and assumptions to arrive at critical accounting judgments and reasonable estimates. These relate to the useful life of non-current assets, allowance for bad debts, and depreciation, among others. Hence, these processes are continually evaluated 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 expenses, causing misleading results.

**Accuracy and Valuation.** The transactions may have been inaccurately reflected in the financial statements and the assets, liabilities, revenues, and expenses may have been valued inappropriately. In addition, transactions, balances, and other financial records may have been incorrectly disclosed and presented in the financial statements.

**Disclosures.** Useful or relevant information may not be adequately disclosed in the notes to the financial statements, thus impeding the purpose of communicating in-depth insight into the Centre's financial position and financial performance than is possible through the primary financial statements alone.

**Compliance with Regulations.** Transactions may not be in accordance with Financial Regulations, Rules, and legislative authority.

**Adoption of new IPSAS.** The Centre may not adopt nor properly implement the updated and new standards required by the IPSAS Board and those may have an impact on its financial reporting.

### Audit Objectives

During the interim visit, we aim to assess the Centre's internal controls to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for which we provide an opinion. We will also validate the implementation of prior years' recommendations as at the cut-off date of the interim audit.

For the year-end visit, the purpose of the audit is to form and issue an independent audit opinion and add credibility on the financial statements of the Centre through the examination of evidence supporting the amounts and disclosures in the financial statements, including the assessment of the accounting principles used and significant estimates made, as well as the overall presentation of the financial statements. Moreover, we will validate the implementation of prior years' recommendations to ensure that value added by the External Audit is maximized and attained.

Moreover, we aim to determine whether processed transactions complied with the Centre's policies, regulations, rules and procedures and legislative authority, and that results are being generated by effectively managed processes.

### Operations Audit - Evaluation of Training Activities

#### Context

The Centre is the training arm of the ILO and has been at the forefront of learning and training since 1964. As part of the ILO, it is dedicated to achieving decent work while exploring the frontiers of future work, with the mission to provide people with access to digitally enhanced capacity development services to successfully manage their future of work transitions. The Centre offers a number of courses that cover topics such as employment promotion, international labour standards, social protection, social dialogue, innovation, gender equality and diversity, sustainable development, and the future of work, among others. Training statistics of the Centre as at 30 September 2021 is as follows:

High-level indicator of organizational performance	Results for 2020	Situation at 30 Sept. 2021 (January-September 2021) Provisional
1. Number of participants reached through face-to-face training activities, disaggregated by gender, tripartite constituents, place of training (field or campus) and showing the share of these face-to-face learners involved in blended learning activities (i.e., combined with distance learning activities, see indicator 1.2 below)	1 841 (*) participants, With 32 per cent of them women  Among them: 59 employer participants 68 worker participants 80 labour ministry participants	2 245 (*) participants, with 26 per cent of them women  Among them: 30 employer participants 39 worker participants 90 labour ministry participants 3% involved in blended training -----



		(*) Source MAP.
2. Number of participants reached through distance learning activities, disaggregated by gender, tripartite constituents and distance learning modality (e.g., MOOC, self-guided distance learning course, etc.)	34 564 (*) active distance learners accounting for 52 056 (*) enrolments with 39.9 per cent of them women  Among them: 4 014 employer participants 4 553 worker participants 3 622 labour ministry participants ----- (*) Source e-Campus and SoliComm	33 424 (*) active distance learners  accounting for 53 052 (*) enrolments with 42 per cent of them women  Among them: 1 838 employer participants 4 167 worker participants 3 644 labour ministry participants ----- (*) Source e-Campus and SoliComm.
3. Number of ILO staff trained by the Centre	186 (Face-to-face) 1 800 (Active Distance Learners)	6 (Face-to-face) 1 722 (Active Distance Learners)

Source: CC 85/1 Add. (ITCILO Updated training statistics-as at 30 September 2021)

Considering that the conduct of trainings is the core activity and a primary source of funding for the Centre, it is imperative that it maintains the quality of the courses and training it offers. Thus, success of the training delivered should be measured through a process of evaluation to ensure effectiveness, and the impact of the courses offered; as well as address areas for improvement to enhance service delivery, respect values and opinion, and uphold professionalism.

Training evaluation can be defined as any attempt to obtain information (feedback) on the impact of training programmes and activities, thus, assess the value of training in the light of that information for improving further training implementation and delivery. Evaluation is not an afterthought to training, but rather it is meant to be integrated in the entire learning and development process.

A successful training evaluation works as a checkpoint to ensure and measure the effectiveness of training. A well-laid-out training evaluation process helps to bring greater accountability by ensuring the end objectives of training are met and that there are no compromises on expected output and results.

The role of evaluation is the means by which any organizations can acquire information and knowledge of how to become more effective in the delivery of their mission.

Evaluation is not a decision-making process per se, but rather serves as an input to provide decision makers with knowledge and evidence about performance and good practices. Although evaluation is used to assess undertakings, it should provide value-adding information for decision-oriented processes in order to improve current and future activities, projects, programmes, strategies, and policies. Thus, evaluation contributes to policy making, development and organizational effectiveness.

### Risk Perspective

The risk associated in unsuccessful training implementation and delivery (eLearning, Classroom, or Virtual instructor-led training (VILT) or Blended Learning which is the combination of Classroom and VILT) necessitates appropriate risk mitigation that is crucial in the way it is improved or modified from time to time thus, evaluation is critical. Training evaluation is a way to collect raw information, feedback on how learners access learning, how they progress, where they drop out, the impact of the training, among other

important training implementation and delivery information. This helps mitigate the risks and further understand where improvements and changes are required.

Evaluation of training that ends successfully or unsuccessfully brings experience and consequently lessons learned to the Centre. Lessons learned include methods to reduce or eliminate risks, details to be considered in its work, and avoid repeating mistakes. Knowledge gained from lessons learned further supports quality training management.

Hence, an evaluation is an assessment, conducted as systematically and impartially as possible, of training activities, among others. It analyses the level of achievement of both expected and unexpected results by examining the results, processes, contextual factors and causality using appropriate criteria such as relevance, effectiveness, efficiency, impact and sustainability. The purpose of evaluation is to promote accountability and learning. It aims to understand why – and to what extent – intended and unintended results were achieved and to analyze the implications of the results. The United Nations Evaluation Group (UNEG) in its Norms and Standards for Evaluation prescribed the standards for institutional evaluation framework which includes programme and project evaluation that covers training.

**Framework for evaluation.** The risk of the absence of an adequate framework for the effective management of its evaluation of training implementation and delivery. A comprehensive Centre-wide framework for managing the conduct of evaluations is crucial to ensure an effective evaluation process.

**Evaluation policy.** The risk of obsolete or the absence of an established evaluation policy that is periodically reviewed and updated in order to support the evaluation activities to increase compliance to the best practices and existing standards for evaluation.

**Evaluation plan, performance and reporting.** The risk on the deficiency of mechanism to inform the governing body and/or management on the evaluation plan and on the progress of its implementation. The evaluation plan should be based on an explicit evaluation policy and/or strategy.

**Disclosure policy.** The risk that the Centre does not have an explicit disclosure policy for evaluations. To increase the Centre's public accountability, key evaluation products (including annual reports, evaluation plans, terms of reference, evaluation reports and management responses) should be publicly accessible.

### Audit Objective

To provide assurance as to whether there were adequate and functioning framework, strategy, policy, and effective controls in the evaluation of the Centre's training activities, as well as to assess whether the training programmes are achieving their specific training objectives.

## 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	€ 747,612.00
Unadjusted and adjusted items in excess of this amount will be reported to management	five per cent of overall materiality	€ 37,380.60

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 2021 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 updated on the final determination of this matter.

## Planned Work

12. For the seventh 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											
	2022						2023					
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>Audit Risk Assessment and Management</b>												
Assessment of major risk indicators												
Assessment of need/use of Work of Others												
Create time budget/ planning meeting												
<b>Understand Auditee Operations</b>												
Risk Management Process and Fraud Risk Assessment												
Operations analysis and performance review												

Activities	Month											
	2022						2023					
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Analysis of critical information processes including financial reporting												
Financial Statements linkage determination												
Review of Programme and Budget, and Implementation Reports												
<b>Assess Risk Management and Controls</b>												
Assess risk management strategies and controls to reduce risk to an acceptable level (entity-level and process level risks)												
<b>Manage Residual Audit Risk</b>												
Respond to identified Financial Statements (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												
<b>Communicate Value Delivered</b>												
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 Programmes, including audit procedures and specific audit objectives will be developed for each audit area identified.

### Significant Audit Deliverables

14. 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 2022, often referred to as Short Form Report; and
  - **Report of the External Auditor to the Board (Long Form Report).** This contains the significant 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. The report provides an update on prior years' observations and the implementation of recommendations. It also contains the current year's observations and recommendations.

15. In addition, we will provide Management with the following reports during our audit:
- **Management Letter.** A derivative communication from the AOMs that identifies opportunities for changes in procedures that in our view would improve systems of internal control, streamline operations, and/or enhance financial reporting practices.
  - **Audit Observation Memoranda (AOM).** A written communication to concerned officials informing them of deficiencies observed in the audit of accounts, operations, or transactions.

### Significant Audit Milestones

Activity	Date
Presentation of Audit Plan	October 2022
Interim Audit	10 – 28 October 2022
Year-end Audit	13 February – 03 March 2023
Signed Audit Opinion	07 March 2023
Presentation of Audit Results to Officers of the Board	May 2023

### Other Audit Services

16. As the Centre's External Auditor, we are expected, and we confirm that we also perform audits upon requests by the Centre's donors. Separate Terms of Engagement will be prepared accordingly.

### Planned Field Works

17. In line with our risk-based audit methodology, our planned work for the 2022 audit consists of the following activities:

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
Interim audit ITC of the ILO 10 - 28 October 2022	<p>A. Financial Audit:</p> <p>Compliance testing: review of compliance with the Centre's policies, regulations, rules and procedures, and legislative authority pertaining to all transactions/accounts composing the financial statements.</p> <p>Covering the period from January to September 2022, perform internal control testing as well as</p>	3	AOM Management Letter

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	<p>substantive testing (minimum, standard, or focused) and transactional analysis on the following processing streams:</p> <ol style="list-style-type: none"> <li>1. Cash management stream to cover controls/transactions on cash, investments and financial instruments</li> <li>2. Receivables and revenue stream</li> <li>3. Payables and expenditure stream</li> <li>4. Payroll stream</li> </ol> <p>Correlate the identified streams to the accounts to achieve focused scoping and review of areas</p> <p>Identify the key and significant processes within the streams that we intend to cover and audit (test of controls and details)</p>		
<p><b>Year-end audit ITC of the ILO</b> 13 February – 03 March 2023</p>	<p><b>A. Financial Audit</b></p> <p>Review of the following financial statements including Notes to Financial Statements:</p> <ol style="list-style-type: none"> <li>1. Statement of Financial Position</li> <li>2. Statement of Financial Performance</li> <li>3. Statement of Changes in Net Assets</li> <li>4. Statement of Cash Flow</li> <li>5. Statement of Comparison of Budget and Actual Amounts</li> </ol> <p>Review of compliance with the Centre's policies, regulations, rules and procedures, and legislative authority.</p> <p>Test of balances and substantive testing (minimum, standard, or focused) as well as internal control testing of the following accounts:</p> <ol style="list-style-type: none"> <li>1. Cash and cash equivalents</li> <li>2. Accounts receivable</li> <li>3. Property and equipment</li> <li>4. Accounts payables and accrued liabilities</li> <li>5. Deferred revenue</li> <li>6. Employee benefits (liability)</li> <li>7. Accumulated balances</li> </ol>	3	<p>AOM</p> <p>Management Letter</p> <p>Independent Auditor's Report</p> <p>Long Form Report</p>

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	<p>8. Revenue from training and advisory services  9. Revenue from voluntary contributions  10. Salaries, employee benefits and other personnel costs  11. Other costs related to training  12. Building and ground maintenance</p> <p>Limited review of the following accounts:</p> <p>13. Prepayments  14. Other revenue  15. Exchange gain and revaluation, net  16. Subcontracts  17. General operating expenditures  18. Travel</p> <p>Review of compliance with new Standards pertaining to Statements I-V composing the financial statements, including all the accounts and their disclosures.</p> <p>Follow up the implementation of prior years' audit recommendations.</p> <p><b>B. Operations Audit</b></p> <p>Review of evaluation of training activities – audit work will include the review of framework, policy and strategy for evaluation, and performance of evaluation by the Centre.</p>		

## Audit Management

18. The management of our audits is based on our established operating philosophy of aligning our audit process more closely with the needs of our international clientele to improve 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 operations. To this end, the International Audit and Relations Office (IARO) of the COA is the main focal point in the management of our international commitments.
19. The audit of the Centre will be performed by a team composed of experienced, competent, and professional auditors from the COA 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.

20. To ensure that audit quality controls are designed, implemented, and working effectively, we shall perform an Audit Quality Control Review for every audit activity in accordance with ISA 220 - Quality Control for an Audit of Financial Statements and adopted by INTOSAI as ISSAI 1220. 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 of the COA performs the final review of our output and is also consulted on sensitive, complex, and/or difficult issues with the support of the Director of IARO.