

Board of the Centre

88th Session, October 2024

CC 88/4/2

FOR INFORMATION

FOURTH ITEM ON THE AGENDA

Plan for the audit of the 2024 Financial Statements



SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

**Annual Audit Plan for the External Audit of
International Training Centre of ILO
for the year ending 31 December 2024**

Introduction

1. The Comptroller and Auditor General of India (CAG) has been appointed as the External Auditor of the International Training Centre (ITC) of the ILO from 2024-27. The audit plan presented here is derived from a strategic audit plan based on risk assessment, covering the period from 2024 to 2027, aimed at enhancing audit efficiency and maximizing assurance to stakeholders.

Audit Mandate

2. External Audit draws its mandate from Article 24 of Financial Regulations of the ITC which states that The External Auditor of the ILO is the External Auditor of the Centre.
3. The External Auditor's mandate is established in Chapter IX of the ITC's Financial Regulations. 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.
4. Further, Article 25 mandates that –
 - a. the audit shall be conducted in conformity with generally accepted common auditing standards and, subject to any special directions of the Board.
 - b. the External Auditor may 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.
 - c. The External Auditor shall be completely independent and solely responsible for the conduct of the audit.

Audit approach and methodology

5. The financial and compliance audit of ITC will be conducted using a risk-based approach, wherein areas identified as having a higher risk of material misstatement will receive enhanced audit procedures. Sampling techniques will be utilized to perform substantive tests on financial transactions and balances, ensuring statistical validity. Internal controls will be reviewed and tested to assess their effectiveness in preventing and detecting fraud or errors. Audit procedures will include analytical reviews of financial statements to identify discrepancies and trends, as well as physical verification of significant assets. Engagement with key stakeholders, such as the internal audit department, and finance personnel, will

also be undertaken to ensure a comprehensive understanding of the ITC's financial operations.

6. The nature and extent of any work done by the ILO's Office of Internal Audit and Oversight (IAO) and any external review body will be considered in establishing the scope and objectives of our audit plan.
7. Audit scope will include review of the implementation of the audit recommendations made during the previous years' audit.
8. Upon the completion of the audit, the deliverables will include an Audit report expressing an opinion on the ITC's financial statements, along with a management letter with any recommendations for improvement.
9. We will apply a risk-based audit approach, in line with the International Standards on Auditing (ISA) and International Standards of Supreme Audit Institutions (ISSAI). This approach consists of the following phases:

Risk Assessment

10. Material Misstatements: Conduct risk assessments of material misstatements at the financial statement and assertion levels, based on a comprehensive understanding of the ITC and its internal control environment.
11. Risk Maturity: Assess the risk maturity of the Center, including the Board's risk management framework and the extent to which risks are identified, assessed, managed, and monitored.

Audit Planning

12. Prioritization of Areas: Identify and prioritize areas that require objective assurance, such as key risks, risk management processes, and compliance with internal policies.
13. Stakeholder Assurance: Address areas that stakeholders have identified as requiring enhanced audit focus.

Execution and Communication

14. Before commencement of field audit, an entry meeting with the management will be held to explain and agree upon the audit objectives, scope and focus areas.
15. Audit Fieldwork: perform audit testing based on identified risks, covering compliance, efficiency, and control assessments.
16. Stakeholder Discussions: to present audit findings to ITC management, ensuring mutual agreement on recommendations and facilitating the resolution of deficiencies.

Integration with Internal Oversight

17. The audit will be coordinating its efforts with the work performed by the Office of Internal Audit and Oversight (IAO), to ensure a comprehensive and cost-effective audit plan.

Sources of Funding and Budgeting

18. The financial statements of ITC are prepared on the accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS) and fully comply with all the applicable standards effective as at 31 December 2023. The ITC's financial period for budgetary purposes is a biennium consisting of two consecutive calendar years. The financial statements are prepared annually. The functional and presentation currency of the ITC is the Euro (€).

19. The Revenue of ITC primarily consists of Voluntary Contributions, contributions from training and non-training activities, multimedia services, etc. The 2024-25 budget proposal is for € 29 470 thousand for training and non-training activities, whereas multimedia services (€ 1 630 thousand) and miscellaneous (€ 2 789 thousand) are negligible.

20. For Voluntary contributions, Government of Italy is expected to be the biggest contributor (€ 15 700 thousand), followed by ILO (€ 10 086 thousand), Government of Portugal (€ 500 thousand) and City of Turin (€ 360 thousand).

Period of Audit Scope

S/N	Primary Nature of Audit	Audit Scope (Duration to be Covered)
1	Financial Audit	One Year (Last Financial Year)
2	Compliance Audit	<p>Compliance Audit: One complete financial year and remaining period till the date of start of audit.</p> <p>The audit may extend backwards in time to follow complete trail of a current transaction (within scope period) in the previous year(s).</p> <p>Auditors may use previous years data for trends analysis.</p>

Audits to be conducted during audit cycle 2024-25

S/N	Topic	Place
1	Financial Audit of ITC	Remote and onsite at Turin, Italy
2	Compliance Audit with special focus on audit of Procurement and Contracts Management	

The dates of the above audits will be firmed up in consultation with ITC management.

Tentatively, following schedule is proposed:

- (i) Interim Audit – **Two weeks** – 18 November to 29 November 2024 (Remote Audit from India)
- (ii) Financial and Compliance Audit - **Three weeks** - 10 February to 28 February 2025 (on site at Turin, Italy).

Audit Objectives

- (i) To express an independent opinion as to whether:
 - the financial statements present fairly, in all material respects, the financial position of the ITC as of 31 December 2024, 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).
 - the financial statements have been prepared in accordance with the stated accounting policies.
 - the accounting principles have been applied on a basis consistent with that of the preceding financial period.
 - 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 Financial Regulations and legislative authority.
- (ii) 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 Organization (Chapter IX of the Financial Regulations).

Focus Areas in relation to the Financial and Compliance Audit of ITC ILO

Financial Audit

- Compliance with IPSAS, Accounting Policy, financial rules, Investment Policy etc.
- Adequacy of existing framework of treasury management including the system of monitoring and forecasting cash balance by Treasury.
- The periodicity and reasonable consideration for booking the amount under correct head.
- Assets accounting and verification including procurement, depreciation and disposals.
- Working Capital fund related issues.
- Revenue Recognition and related issues.

Compliance Audit with a focus on Audit on Procurement and Contracts Management:

The procurement and contract management functions of the Centre play a crucial role in ensuring the optimal allocation of resources, compliance with financial rules, and the delivery of value for money. The procurement framework is governed by the Financial Rules, particularly Point 10.10, which outlines procurement principles emphasizing best value, economy, efficiency, competition, transparency, and accountability. The rules also define the requirements for awarding contracts, as well as exceptions that allow waivers of formal competition when in the Centre's interest.

Key Audit Objectives

- Evaluate Compliance with Financial Rules and Procurement Guidelines.
- Assess Efficiency and Effectiveness of Procurement Processes.
- Evaluate the Role of Governance Structures in Contract Management.
- Evaluate Risk Management and Internal Controls.

Focus Areas for the Audit

- Procurement Planning and Compliance with Procurement Authority
- Supplier Base Expansion and Competition
- Fair and open competition, providing equal opportunities for qualified vendors.
- Risk Management in High-Value Contracts.
- Internal Control and Documentation
- External Collaborators and Event Expenditures.

Audit materiality

Our audit requires us to determine the materiality for each engagement. This amount is also used to evaluate the significance of uncorrected misstatements (past adjustments and reclassifications) noted during the audit. The audit materiality will be arrived at during the interim audit, which will result in planning the nature and extent of substantive checks by the Audit.

Audit Work Plans

Detailed Audit work plans and programmes, including audit procedures and specific audit objectives will be developed for each audit area identified.

Audit deliverables

1. Reports to the Board

- a) Independent Auditor's Report: Expresses the audit opinion on the financial statements.
- b) Long Form Report: Provides detailed observations on financial procedures, internal controls, and management practices.

2. Reports to Management:

- a) Management Letters: Outline recommendations for improving systems of internal control.

Audit Milestones

Activity	Tentative Date
Presentation of Audit Plan	October 2024
Interim Audit (Remote Audit)	18 November to 29 November 2024
Year end audit	10 February to 28 February 2025
Issue of draft Long Form Report	20 March 2025
Response to Draft Long Form Report by ITC to SAI India	25 March 2025
Signed Audit Opinion and Final Long-form Report	1 April 2025
Presentation of audit results to Board	Late May 2025

Audit management and Quality Assurance

3. To ensure the quality and impact of the audit process, an internal review mechanism will be in place to evaluate the practicality and value-addition of all proposed recommendations, while maintaining adherence to international audit standards. This quality assurance framework will align with the International Standards on Auditing (ISA) and the International Standards of Supreme Audit Institutions (ISSAI) to ensure consistency, reliability, and adherence to best practices.
4. The recommendations, aimed at enhancing governance and strengthening internal controls, will be thoroughly discussed during the Exit Conference, fostering mutual agreement and alignment with ITC's objectives.
5. The reporting process will embody the principle of “no surprises,” featuring an elaborate framework that allows management to respond to the audit findings at each stage of the process, thereby facilitating an open dialogue and ensuring that any concerns are addressed in a timely manner.