

Board of the Centre

88th Session, October 2024

CC 88/4/3

FOR DISCUSSION AND GUIDANCE

FOURTH ITEM ON THE AGENDA

Report of the Chief Internal Auditor for the year ended 31 December 2023

I. Introduction

1. The Office of Internal Audit and Oversight (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. 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. Paragraph 67 of The Centre's Accountability Framework Key Standards and Mechanisms provides "The ILO's Office of Internal Audit and Oversight (IAO) is responsible, under the Revised Audit Charter and new Investigation Charter, for providing the Centre's Director as well as its Board with independent, objective, expert advice and assurance in order to add value and improve the Centre's operations. It makes recommendations with a view of improving internal governance, risk management, internal control, stewardship and accountability. In addition, it is also responsible under its mandate to conduct investigations into allegations of financial or administrative misconduct and other irregular activities. All programmes, projects, operational budgets, funds and activities undertaken by the Centre, regardless of the source of funding or location, are subject to the Chief Internal Auditor's independent responsibilities."
3. IAO provides 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 addition, IAO conducts independent fact-finding investigations into allegations of wrongdoing at the Centre, thereby ensuring accountability. 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 of the Centre's activities.

4. 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. IAO has full, free and prompt access to all records, personnel, operations, functions, and other material relevant to the subject matter under review.
5. IAO's audit activities conform to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. The investigation activities are governed by the IAO Standard Operating Procedure for Investigations and the Conference of International Investigators Uniform Guidelines for Investigations (2nd edition).

II. Audit Results

6. In 2023, IAO's Audit and Assurance Unit (AAU) issued two planned assurance audit reports on Digital Governance and Electronic Banking Security.
7. **Digital Governance** – the audit found that the Centre is making significant progress towards achieving its digital transformation goal. Management has developed a digital strategy and has incorporated it into its strategic plan (2022-25) and the programme and budget (2022-23). The review also indicated that management actively sponsors the digital transformation process and incorporates digital risks into its risk management process. Further, programmes/units are in alignment with the overall digital strategy for the Centre.
8. However, the audit found that the Centre has allocated responsibilities for digital initiatives at the programme/unit level, which creates the risk of prioritizing programme/unit initiatives rather than the Centre's strategic initiatives. IAO recommended actions to reinforce oversight in this area.
9. The audit also indicated that the Information and Communications Technology Services Unit did not have a plan or strategy including digital matters, and there was no formalized methodology to prioritize information technology projects.
10. At the time of the audit, the Centre was in the process of modernizing the performance management system and redrafting job descriptions. These important initiatives will contribute to supporting the Centre's digital transformation.
11. **Electronic Banking Security** – the audit found that FINSERV has implemented dual factor authentication for accessing all three electronic banking applications in operation, which is a good practice as it provides heightened security.
12. However, the audit found that management had not implemented the dual-approval functionality available for administering user accounts in one of its electronic banking applications and had instead allocated the administrator role to the Treasurer. As a result, the Treasurer could theoretically create unauthorised user accounts and subsequently operate them to process unauthorised payment instructions, domestically or internationally, without involving or informing other staff members. The Centre's bank balance at the time of the audit was significant. This was immediately changed by the Treasurer.

13. Further, the audit found opportunities to improve controls over administering user accounts in one electronic banking application and verifying that all electronic banking user accounts remain valid and contain user privileges that are commensurate with users' job responsibilities. These controls are essential to ensure that duties are properly segregated, that accounts of staff who transfer or leave are deactivated in a timely manner and that transactions are valid and authorized. IAO found three active user accounts with privileges for administering users and processing transactions that were not required and one active user account that was not easily identifiable from the username.

III. Other Activity

14. **Renforcer l'Insertion Professionnelle par des Apprentissages de Qualité dans les Entreprises du Batiment Travaux Publics (RIPAQUE-BTP) Project in Burkina Faso**
– The Donor, with the agreement of ITC Management, mandated IAO to act as a «vérificateur des dépenses» The review found that all project expenditure was compliant with the eligibility criteria defined in the terms of reference. The review identified minor errors however, the errors which were not determined to be material.

IV. Audits planned and in progress in 2024

15. IAO has an ongoing assurance audit of procurement. IAO will provide an oral presentation of the audits completed and in progress in 2024 during the board meeting in October and will provide a summary of the audit reports issued in 2024 in the annual report to the Board in 2025.

V. Investigations

16. IAO's Investigation and Inspection Unit (IIU) did not receive any allegations in 2023. However, IAO issued one report to the Director on allegations of sexual misconduct (allegation received in 2021). The allegations were substantiated.
17. IAO closed two cases from 2021 (allegation of an undeclared outside activity and undeclared conflict of interest) and 2022 (allegation of irregularities in a recruitment process), both were unsubstantiated after a preliminary investigation.

VI. 2024 cases

18. IAO has so far received three allegations in 2024, two have been closed unsubstantiated (allegation of undeclared outside activity and allegation of non-respect of the principle of value for money) and one is under active investigation (allegation of an undeclared conflict of interest).

VII. Observations on 2023 reports

19. During the course of the investigation into the allegations of sexual harassment, IAO identified issues as follows:
- **Reporting:** Witnesses spoken to during the investigation were unaware of the formal mechanism for reporting sexual harassment. Witnesses were also unaware of their right of protection from retaliation for reporting and cooperating in an investigation. Centre response: *Management takes note of the observation made by IAO and will be undertaking a review of mechanisms in place and its communication strategy on both these mechanisms and protection rights against retaliation.*
 - **Policy:** Circular 13/2009 on policy and procedures for dealing with harassment is out of date. The definition of harassment needs updating in line with UN definitions and the procedure for reporting, investigating and holding to account needs to be clarified. Centre response: *Management takes note of the observation and will be updating its Circular to align its definitions and policies to those of the UN.*
 - **Awareness raising:** As well as awareness raising on reporting and protection rights and policy updates, management may wish to consider a general training on respect. Centre response: *Management takes note of the observation and fully agrees that general training should be regularly provided to its staff. This will be addressed once all mechanisms and Circulars are updated.*

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

August 2024