

Board of the Centre

85th Session, October 2021

CC 85/5/2

FOR INFORMATION

FIFTH ITEM ON THE AGENDA

External Audit Plan

EXTERNAL AUDIT PLAN

Financial Year 2021



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 2021. This plan specifically presents our audit objectives 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.

TABLE OF CONTENTS

Mandate and Scope of Work.....	3
Overall Audit objectives.....	3
Audit Approach and Methodology	3
Risk Perspectives and Audit Objectives	4
Audit Materiality.....	7
Planned Work	7
Significant Audit Deliverables	9
Significant Audit Milestones.....	9
Other Audit Services.....	9
Planned Field Works (Virtual).....	10
Audit Management.....	11

Mandate and Scope of Work

1. The Governing Body of the International Labour Organization (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 334th 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, also known as the “Centre”.
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 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 2021, and the results of its financial performance, its cash flows, and the comparison of budget to actual amounts for the year 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 year; and
 - iii. the transactions that have come to our notice during the audit of the financial statements have, in all significant respects, been 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 to the audit of the Centre’s financial statements as well as its operational management. 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 area 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. Further, the health crisis (COVID-19 pandemic) has forced us to adapt and utilize a virtual/remote audit modality for the continuity of our mandate. Necessary arrangements will be made with the Centre to facilitate the virtual/remote interim audit as well as the year-end, if performing an on-site audit is still not feasible.

Risk Perspectives and Audit Objectives

9. During the past five 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 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 Accounting and Reporting

Context

The financial statements of the Centre are consolidated with those of the ILO and are prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and 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. Its main benefits are increased transparency that provides a better understanding of 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 Perspectives

Completeness. Reliability of information contained in the financial statements is achieved only if complete and relevant financial information is provided by the Centre and financial decision-making needs of the users 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 the risk that the users will base their decisions on information which may be misleading as it only presents a partial view of the affairs of the Centre.

Judgments and Estimates. Since judgements are very subjective in nature, they may be susceptible to inappropriate processes and assumptions to arrive at 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 on the basis of 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 expense figures, causing misleading results.

Accuracy and Valuation. The transactions may have been inaccurately reflected within 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. 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 a higher volume of note disclosures, thus increasing the risk that useful or relevant information may not be adequately disclosed.

Compliance with Regulations. Transactions are in accordance with Financial Regulations, Rules, and legislative authority.

Adoption of new IPSAS. The Centre adopts the updated and current standards required by the IPSAS Board and those that have an impact on its financial reporting.

Audit Objective

The audit objective 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 statement.

Fixed Asset Management

Context

Asset Management for property and equipment is being used as a tool to optimize the whole life impact of costs, performance and risk exposures associated with the availability, efficiency, effectiveness, and

longevity of an Organization's physical assets. Over the life stages of the assets (acquisition, operation and maintenance, and disposal), the assets should be effectively managed to attain optimal benefits.

In the case of the Centre, whereas the Centre is located on land and in buildings provided by the City of Turin at a nominal rent, the Covenant between the City of Turin and the ILO signed on 29 July 1964 provides the Centre with the right to refurbish and improve the buildings on the site along with the responsibility to provide ordinary maintenance of the buildings, park, roads, and paths on the site. As at 31 December 2020, the Property and Equipment amounted to €14.54 million with an accumulated depreciation of €8.62 million. The City of Turin assumes responsibility for major repairs and extraordinary maintenance, while the Centre is responsible for minor routine maintenance and repairs. For year 2020 fixed expenditure was €21.7 million (€22.7 million in 2019), €1.33 million (€1.74 million in 2019) relates to buildings and ground maintenance while €0.83 million (€0.91 million in 2019) pertains to depreciation. The breakdown of the depreciation for the period ending 31 December 2020 includes €127 thousands for Office equipment; €110 thousands for Other type of equipment; €15 thousands for Furniture and fixtures; and €556 thousands for Leasehold improvements as stated in Note No. 8 of the Financial Statements of the Centre's Audited Financial Statements for the year ended 2020.

Notwithstanding the current business environment, asset management is paramount to both financial reporting and the Centre's operations.

Risk Perspective

Assets (property and equipment) are items owned or controlled by the Centre. Officials and staff use these assets to perform their job and have the responsibility to use them in an effective, efficient and fair manner. Appropriate use of these assets are fundamental to the Centre in fulfilling their objectives, mandate and responsibilities. The significance of asset management can be encapsulated into the life stages of the assets, namely: procurement, safeguard and maintenance, and disposal:

Procurement. The procurement principles are fundamental to guiding the acquisition procedures, accountability, and management, vendor performance assessment as well as the exercise of economy. The risk that the procurement principles are not elaborated in operational terms such that responsible officials can understand the policies and be held accountable for compliance.

Safeguard and maintenance. The lack of an appropriate policy and optimal strategy for their use may put at risk asset safeguard and maintenance, thus ensuring economy and compliance in the use of these assets.

Disposal. There is a frequent requisite to dispose of depreciated, redundant, or excess property and other inventories. There is a risk that the disposal of property and inventory were not planned and conducted to obtain value for money for the Centre and reduces opportunities for corruption, and that the write-off of assets were not recorded properly.

Audit Objective

The general objective of this audit is to assess the Centre's policy, strategy, and actions in managing its assets in terms of the life stages of the assets (Procurement, Safeguard and Maintenance, and Disposal).

Specifically, the audit aims to optimize the management of property and equipment and capital purchases by incorporating planning at all phases of the asset's life cycle. It begins with planning for the acquisition and continues through usage and disposal:

- a. in terms of principles including value-for-money, transparency, non-discriminatory practices, fair competition and ethical behaviour, are performance indicators or success factors for procurement;
- b. the adequacy and efficiency of strategy, methods, procedures, and controls covering asset protection and preservation, including compliance to rules and accountability;
- c. compliance with the Centre's regulations that guide the disposal of goods and property, procedures which clearly map out each stage in the asset disposal process including its accounting and staff roles, responsibilities, and delegations.

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	€ 752,516.00
Unadjusted and adjusted items in excess of this amount will be reported to management	five per cent of overall materiality	€ 37,625.80

11. We considered the following factors in establishing materiality such as the need 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 2020 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 on this matter.

Planned Work

12. For the sixth 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											
	2021							2022				
	June	July	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												

13. Detailed Audit Work Plans and Programs, including audit procedures and the specific audit objectives were 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 2021; and
 - **Report of the External Auditor to the Board.** This contains 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. The report provides an update on prior years' observations and the implementation of recommendations. It also contain the current year's observations and recommendations.
15. In addition, we will provide management with the following reports during the course of our audit:
- **Management Letter to the Centre Director (ML).** A derivative communication from the AOMs 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 (AOM).** A written communication to concerned 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 2021
Interim Audit	04 – 22 October 2021
Year-end Audit	07 February – 04 March 2022
Signed Audit Opinion	07 March 2022
Presentation of Audit Results to Officers of the Board	May 2022

Other Audit Services

16. 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 accordingly.

Planned Field Works (Virtual)

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
Interim audit ITC of the ILO 04 - 22 October 2021	A. Financial Audit: Review the compliance of the accounting and reporting process pertaining to all accounts composing the financial statements. 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 2021: (a) minimum substantive testing for non-significant accounts; while (b) standard, or focused substantive as well as control testing and transactional analysis will be undertaken on the following expenditure accounts: 1. Staff Cost 2. Staff benefits 3. Consultants 4. Missions 5. Other Costs related to Training Activities 6. General Operating Expenses B. Review of fixed asset management – audit work will include process cycle review (from procurement to disposal), policy and strategy evaluation, securing pertinent documents, queries, and others (virtual or remote audit).	3	AOM Management Letter
Year-end audit ITC of the ILO 07 February – 04 March 2022	A. Financial Audit: 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. Test of balances and substantive testing (minimum, standard, or focused) as well as control testing depending on the nature of the accounts (significant or non- significant).	3	AOM Management Letter Independent Auditor's Report Long Form Report

Offices to be visited/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	Conduct of the financial performance review of the Centre including the review of the following significant accounts: <i>Assets</i> 1. Cash and Cash Equivalents 2. Accounts Receivable 3. Contributions Receivable 4. Property and Equipment 5. Intangible Assets <i>Liability</i> 1. Employee Benefits <i>Revenue</i> 1. Training Revenue 2. Voluntary Contributions <i>Expenditure</i> 1. Staff Costs 2. Consultants 3. Missions 4. Other Costs related to training activities 5. General Operating Expenditures 6. Buildings and ground maintenance 7. Supplies 8. Depreciation 9. Bank charges B. Review of compliance with new Standards. C. Follow up the implementation of prior years' audit recommendations. (virtual/remote audit or on-site if feasible).		

Audit Management

17. 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 governance and provide readers 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 Commission on Audit is the main focal point in the management of our international commitments.

18. 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.
19. To ensure the quality of our audits, we observe the ISA 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 output and is also consulted on sensitive, complex, and/or difficult issues with the support of the Director of IARO.