

Board of the Centre

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FOR INFORMATION

FIFTH ITEM ON THE AGENDA

Plan for the audit of the 2023 Financial Statements



International **Training** Centre

EXTERNAL AUDIT PLAN

Financial year 2023



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, also known as the “Centre”, of the International Labour Organization for the financial year 2023. 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 (ISA) and International Standards of Supreme Audit Institutions (ISSAI).

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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. This will be the last financial year of COA's audit mandate.
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 2023, 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 ISA and ISSAI, 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 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 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.

Risk Perspectives and Audit Objectives

9. During the past seven 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 in the current year of our audit mandate.

Financial Audit

Context

The financial statements of the Centre are consolidated with those 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 year, 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

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 consideration with the sufficiency of controls over processes and application systems (i.e. procurement, staff leaves and payroll) that 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, 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 and incomplete 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, employee benefits, 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 expenditure accruals due to the complexity of transactions in relation to the requirements of IPSAS financial reporting. This could result in incomplete revenue and expenditure, causing misleading results.

Accuracy and Valuation. The transactions may have been inaccurately reflected in the financial statements and the assets, liabilities, revenues, and expenditure 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 that is possible primarily through the 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. IPSAS 41 will be implemented in this financial year.

Audit Objectives

We aim to assess the efficiency and effectiveness of the Centre's accounting and reporting controls through examination of sample transactions which transpired during the audit year and the performance of extensive internal control testing.

For the year-end visit, the purpose of the audit is to form and issue an independent audit opinion and add credibility to 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 their overall presentation. We will also 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 - Review of Student Support Services Management

Context

As a specialized training institution, the Centre offers a wide range of learning and training courses, services, to learning participants from governments, employers' and workers' organizations, and other stakeholders globally. Therefore, *student support services* are crucial in helping these learners succeed in their training and get the most out of their time at the Centre by giving the corresponding tools and support needed.

The management of student support services as support for the training activities (on-line and face to face) are equally important with consideration on the effectiveness of the courses and training programmes offered by the Centre. The review of student support services as an audit area includes counselling services, career guidance, e-library and learning resources, student accommodation services, extracurricular activities, international student support, feedback, and complaint management, as well as student support for online services. The review considers the evolving needs and expectations of participants, as well as feedback from past and current activities. Additionally, efforts should be made to continuously improve and innovate these services for all learning activities (under the Centre's business model whether on-line, in and off campus) to ensure that they remain relevant, current, and impactful for future generations of learners at the Centre.

At the Centre, the learning support includes e-campus support, e-coaching (any other type of pre- and post-learning support), and student well-being (including recruitment, security, transport, food, accommodation, social events, travel support, etc). While certain services are part of the training arrangements, others are completely separate.

Risk Perspectives

Student support services provide the building blocks for student success. It lends support to learners to help develop and achieve success, to raise the training and course completion rate, promote inclusion and diversity, overcome unique barriers, such as learning and personal challenges by assisting learners from the tripartite constituents (government, workers, and employers).

- **Increase learners' engagement.** The low rate of participation in curricular activities i.e. networking activities, cultural and sports events, peer mentorship, educational trips are examples of support services that assist learners to participate within the Centre community that simply makes individuals feel more connected and complete its course or training program.
- **Removing Barriers.** The presence of obstacles that obstruct learners' progress and results in learning difficulties. The adequacy of services that respond to any support issues, or a confidence crisis brought about by diversity, region, race, gender, and sexual orientation.
- **Assistance in goals achievement.** Most of the learners are driven by professional aspirations. Their enrollments are meant to enhance earnings, promotion or to embark on a new career for advancement. The existence and sufficiency of career-related activities to address underlying motivations that drive learners to participate and complete courses and training programs offered by the Centre.

Thus, the following risks were identified in the review of student support services management:

- **Framework for student support services management.** The risk of an inadequate or the absence of a responsive framework and policy, for the effective management of student support services delivery.
- **Resources.** The risk of insufficient resources both human and financial for the efficient and effective student support services management.
- **Monitoring and Evaluation.** The risk of obsolescence or the absence of an established monitoring and evaluation policy that is periodically reviewed and updated to enhance student support services management.

Audit Objective

To provide assurance as to whether there are adequate and functioning policy, framework, strategy and effective controls, sufficient resources in the management of student support services, as well as to assess whether student support services are periodically evaluated, monitored, and reported both for in-campus and e-learning. Assurances that include assessment of the staffing structure attributed to the administration and implementation of corresponding strategy and whether these staff meet qualification requirements as well as being able to fulfill their duties and responsibilities.

Audit Materiality

10. 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. 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	€ 755,592.00
Unadjusted and adjusted items in excess of this amount will be reported to management	five per cent of overall materiality	€ 37,779.60

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 2022 financial statements audit. However, the quantitative measure of materiality is not the only factor considered in evaluating misstatements. Relatively small misstatements may have a material effect on the financial statements because of qualitative considerations. The Centre will be updated on the final determination of this latter matter.

Planned Work

12. For the eighth 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											
	2023							2024				
	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												

Activities	Month											
	2023							2024				
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Financial Statements linkage determination												
Review of Programme and Budget, and Implementation Reports												
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 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												
Communicate Value Delivered												
Issuance of Audit Observation Memoranda												
Issuance of Management Letter												
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 2023, 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:

- **Audit Observation Memoranda (AOM).** A written communication to concerned officials informing them of deficiencies observed in the audit of accounts, operations, or transactions.
- **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.
- **Capping Report.** A summary of the significant results of our audit during the eight-year mandate. It will highlight the value-adding recommendations provided to Management during the mandate.

Significant Audit Milestones

Activity	Date
Presentation of Audit Plan	October 2023
Interim Audit	16 October to 03 November 2023
Year-end Audit	12 February to 01 March 2024
Signed Audit Opinion	15 March 2024
Presentation of Audit Results to Officers of the Board	May 2024

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, as a result of donor requests. 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 2023 audit consists of the following activities:

Activity/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
Interim audit ITC of the ILO 16 October to 3 November 2023	A. Financial Audit: Compliance testing: evaluate the Centre's compliance with policies, regulations, rules and procedures, and legislative authority pertaining to financial transactions recorded in the accounts composing the financial statements.	3	AOM Management Letter

Activity/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	<p>Covering the period from January to August 2023, perform extensive internal control testing as well as substantive testing (minimum, standard, or focused) and transactional analysis on the following audit areas:</p> <ol style="list-style-type: none"> 1. Fund or budget management with focus on the budget allocation and revisions in the second year of the biennium 2. Property and equipment management to consider processes from purchasing to recording and including building renovation costs 3. Payroll advances and recoveries including all employee benefits <p>Minimum audit procedures will be performed on the following:</p> <ol style="list-style-type: none"> 1. Treasury management (cash and cash equivalents) 2. Receipts and receivable management 3. Procure to pay (overall review/evaluation of purchase orders, including payroll and non-payroll expenditures) <p>Evaluate the implementation of the new accounting standard (IPSAS 41) that may have an impact to the financial statements.</p> <p>B. Operations Audit (Review of student support services management)</p> <p>Assess whether there are adequate and functioning framework, strategy, policy, and effective controls and sufficient resources in the management of student support services, as well as assess whether such student support services are periodically evaluated, monitored, and reported.</p> <p>Assess whether student support services are delivered efficiently and effectively.</p>		

Activity/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
<p>Year-end audit ITC of the ILO</p> <p>12 February to 01 March 2024</p>	<p>A. Financial Audit</p> <p>Review of the Financial Statements including Notes to Financial Statements:</p> <ol style="list-style-type: none"> 1. Statement of Financial Position 2. Statement of Financial Performance 3. Statement of Changes in Net Assets 4. Statement of Cash Flow 5. Statement of Comparison of Budget and Actual Amounts <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"> 1. Cash and cash equivalents 2. Accounts receivable 3. Property and equipment 4. Accounts payables and accrued liabilities 5. Deferred revenue 6. Employee benefits (liability) 7. Accumulated balances (Fellowship and Innovation Funds) 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>Limited review of the following accounts:</p> <ol style="list-style-type: none"> 13. Prepayments 14. Other revenue 15. Subcontracts 16. General operating expenditures 17. Travel 	4	<p>AOM</p> <p>Management Letter</p> <p>Independent Auditor's Report</p> <p>Long Form Report</p> <p>Capping Report</p>

Activity/ Tentative Date	Audit Areas	No. of Audit Personnel	Audit Output
	<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 on the implementation of prior years' audit recommendations.</p> <p>Review of the adoption of IPSAS 41 and its implementation in the financial statements.</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 to the audit of the Centre. Effective manning strategies are adopted in the deployment of the auditors that include effective skills mixing, bespoke technical training 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.