FOR DISCUSSION AND GUIDANCE

FIFTH ITEM ON THE AGENDA

Internal Audit Report

Report of the Chief Internal Auditor on significant findings resulting from internal audit and investigation assignments undertaken in 2010

Introduction

1. The Office of Internal Audit and Oversight (IAO) of the Centre fulfils an internal independent oversight function established under article 14.10 of the Centre's Financial Rules. The Rules specify 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 VII of the Financial Regulations." Chapter VII, article 19(d) of the Financial Regulations stipulates that the Director of the Centre shall maintain an internal financial control and internal audit.

2. The IAO's mission is to provide the Director and the Board with an independent, objective assurance activity designed to add value and improve the Centre's operations. In its work, the 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 in the activities of the Centre.

3. The IAO conducts its audits in accordance with the Institute of Internal Auditors International Standards for the Professional Practices of Internal Auditing.

4. The IAO does not develop or install 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. The IAO has full and free access to all records, personnel, operations, functions and other material relevant to the subject matter under review.

5. The results of the IAO's 2010 activities have not indicated any material weakness in the Centre's system of internal control in those areas audited. The IAO cannot, however, provide comment on those areas that have not been subject to an internal audit in 2010.

Summary of audit results

6. During 2010, IAO conducted an audit of the Centre's income generated from its training activities. At the time of writing this report, IAO had prepared the terms of reference to outsource an IT audit.

Income generated from training activities

7. The Centre derives income from two main sources: voluntary contributions to cover fixed costs and income earned from training activities to cover variable costs and contribute to fixed costs. In 2010, income generated from training activities totaled €25,749,000, as compared to €27,223,000 and €26,557,000 in 2009 and 2008 respectively.

8. In 2009, the Centre benefited from surplus funds provided by the ILO that allowed it to carry forward around €3 million in Italian funds from 2009 to 2010. Also in 2009, the Centre generated a net financial surplus of €1.049 million, which the Officers of the Board approved to be used "in the interest of maintaining the long-term sustainability of the Centre."[1]

9. The Centre cannot presume that it can continue to generate surpluses, nor can it expect to benefit from windfall funding from elsewhere. Therefore, it is imperative that it budgets adequately for all of its training activities and has adequate systems in place to ensure that income is complete and received on a timely basis.

10. In 2011, the Centre commissioned a business process review (BPR) of its activities, which had begun while the audit was taking place. The terms of reference of the BPR cover aspects of income generated from training activities. Therefore, the implementation of any changes as a

---

[1] CC72 Annex 1, Use of the 2009 Surplus.

result of IAO recommendations and findings as noted below will need to be considered after the conclusion of the BPR.

11. IAO reviewed the workflow governing the processing of income generated from training activities and found scope for simplification in certain areas, especially regarding the role of technical training departments. There would also appear to be scope for the Financial Services Department to be directly involved in setting the Centre's contribution to its fixed costs, as well as reviewing the role of the Programme Development and Regional Cooperation (COORD) unit in approving the issuance of invoices.

12. The various IT systems in place at the Centre related to managing costs of training activities, such as catering and accommodation services, are not integrated with the ORACLE financial management module, which has contributed to delays in collecting all information on the costs of each training activity; thus impacting on the time taken to issue an invoice. The lack of integrated systems has also led to the risk of duplication of effort and input errors as the database used predominantly to generate management information on training participation is not linked to the ORACLE financial management system.

13. Within the Financial Services Department, there is scope for enhanced knowledge-sharing, through the identification of at least one additional staff member capable of carrying out each of the key tasks related to income collection.

14. The amount of debt written-off in recent years has not been excessive. However, there is scope for the follow-up of unpaid invoices in a more proactive manner, especially when the sponsor of the training activity is within the UN System. To reduce levels of accounts receivable and write-offs, the Centre is looking into the possibility of an incentive scheme for sponsors. Levels could also be further reduced by following standard practice within the training profession by insisting on payments made fully in advance whenever possible, taking into account exigencies of individual donors.

Summary of Audit Strategy for 2012-2015

15. IAO carried out a risk-based assessment of the Centre's activities and operations, to prepare its strategic audit plan covering the period 2012-2015. The types of areas identified by IAO that could be subject to an internal audit include:

- Review of IT's security (IAO will report on this at the 2012 Board);

- Governance and organization-wide risk management;

- Costing of training activities/fee setting;

- Use of external collaborators (last audited by IAO in 2005) ;

- Review of Internal Services such as training, facilities, accommodation, enrolment of participants, social activities, and welfare;

- Pavilion management/ security;

- Inventory/fixed assets;

- Procurement of goods/services (last audited by IAO in 2008);

- Human resources management/review of recruitment procedures.

16. IAO will finalize its audit plan for the year 2012 during the last quarter of 2011.

IAO's audit approach

17. IAO's audit approach when carrying out individual audit assignments is in line with generally accepted best practice within the internal audit profession. The IAO adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework as the basis for its audit approach. The COSO control framework was introduced in 1992 and is an internationally recognized control framework. When conducting assurance audits, the IAO will therefore evaluate and report against the following criteria:

- **The control environment** – The control environment sets the tone of the organization or section being evaluated. Principal matters evaluated include management's philosophy and operating style, integrity and ethical values, the organizational structure, the importance of the Executive Management and Board of the Centre, and commitment to financial reporting competencies. The control environment forms the basis on which the other aspects of the control framework (discussed below) rest.

- **Risk assessment** – The identification and analysis of relevant risks to achieving the Centre's objectives forms the basis for determining control activities.

- **Control activities** – Control activities occur throughout the Centre and address risks. The range of activities includes the assignment of responsibilities, division of duties, adequate audit trails, and preventative, detective and corrective controls.

- **Information and communication** – Information and communication must effectively flow throughout the Centre in all directions. The objective is to capture pertinent information in a form and within a time frame which allows people to carry out their responsibilities. Information systems and communication processes should embody sound management practices, and facilitate control activities.

- **Monitoring** – Effective monitoring is proactive and comprises ongoing monitoring of activities by both staff and management, the evaluation of compliance with internal controls, as well as timely reporting and taking of actions to address risks, or to prevent the occurrence of undesirable situations.

18. The aim of adopting this approach is to bring a more integrated and strategic approach to the IAO's assurance audits to facilitate the identification and reporting to management of significant issues in a timely manner.

Turin, 23 September 2011