



National Audit Office

The United Kingdom National Audit Office (NAO) provides external audit services to the International Labour Organization, working entirely independently of its role as the Supreme Audit Institution of the United Kingdom. The Comptroller and Auditor General of the United Kingdom and Head of the National Audit Office has been the appointed external auditor to the International Labour Organization (ILO).

In agreement with the ILO, the NAO as External Auditor carried out reviews of certain ILO projects funded by the US Department of Labor.

The aim of the audits has been to provide independent assurance to the ILO on aspects of the performance of the cooperative agreements with the USDOL. The aim of this report is to provide the ILO with a summary of key observations and recommendations arising from the audit of USDOL funded projects.

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## Audit Summary: June 2008

# International Labour Organization: Audit of Projects funded by USDOL

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National Audit Office

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Dear Sir,

## External Auditor's Report

### SYNTHESIS REPORT ON ISSUES ARISING FROM THE AUDIT REVIEW OF PROJECTS FUNDED BY THE USDOL

This report summarises the key issues and common themes that we consider emerge from our audit of USDOL funded projects. Further details of the cases referred to, and the context in which the issues arose, are given in our individual project reports.

We have not sought to record all errors and matters that came to our attention during the audits; rather we have sought to provide our overview of key issues. This report should not therefore be regarded as a comprehensive statement of all weaknesses that exist or all improvements that could be made to the systems and procedures operated by the ILO in implementing USDOL funded projects.

Because of timing, the report on the USDOL funded projects on the prevention and reintegration of children involved in armed conflict has not been included in this analysis.

We do not, in giving this report, accept or assume responsibility to any person, other than the ILO, to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Finally, I would like to thank you for support and assistance provided by ILO staff in Geneva and project offices across the world, as well as all implementing partners and action programme sites that we visited.

Yours sincerely,

**GRAHAM MILLER**  
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## INTRODUCTION

1. At the request of the International Labour Organization (ILO), the National Audit Office as external auditor to the ILO undertook an examination of certain projects funded by the US Department of Labor (USDOL).
2. The ILO currently implements some 40 USDOL-funded projects to combat the worst forms of child labour. These are regulated by six different cooperative agreements as well as the USDOL-ILO Management Procedures and Guidelines. In this context, we audited a sample of 19 projects funded in two different fiscal years and prepared 17 separate reports (the list of projects examined is at Annex D). Our core team of six auditors (supported by other staff as necessary) visited 21 countries in the course of 18 months. The 19 audits, together with this present report, make up to total of 20 audits that we contracted to undertake for the ILO.
3. This report summarises the key issues and common themes that we consider emerge from our audit findings. Because of timing, the report on the IPEC projects on the prevention and reintegration of children involved in armed conflict has not been included in this analysis.
4. This reports summarises the issues. Further details of the cases referred to, and the context in which the issues arose, are given in our individual project reports.
5. Our audits have been conducted in accordance with terms of reference agreed with the ILO (Annex A). The terms of reference present three main audit objectives, which are to:
  - provide an audit opinion on the financial transactions reflected in the Financial Status Reports (FSR) of the projects selected for audit;
  - determine whether the projects are complying with the all the terms of the relevant co-operative agreements; and
  - assess the reliability of the performance data as reported in the Technical Progress Report (TPR) through visits to project sites.
6. The terms of reference further direct our attention to specific matters to be covered by our audit. The scope, objectives and standards employed during our audit are summarised at Annex B.
7. We conducted our audit in accordance with International Standards on Auditing, as adopted by the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. The procedures we adopted as part of our audit are designed primarily for the purpose of providing an opinion on the project as a whole. They included a review of the accounting systems and procedures only to the extent considered necessary for the effective performance of the audit.
8. The audit observations in this report should not therefore be regarded as a comprehensive statement of all weaknesses that exist or all improvements that could be made to the systems and procedures operated by the ILO in implementing USDOL projects.
9. In the course of our audit a number of areas came to our attention where we consider that controls and systems might be improved, and we have made appropriate recommendations to the ILO.
10. The audit team acknowledge the significant support and assistance provided by ILO/IPEC staff in Geneva and project offices across the world, as well as all implementing partners and action programme sites that we visited. We thank them all for their input to our programme of audits.

## MAIN OBSERVATION

11. Our audits comprised discussions with ILO staff in Headquarters and in field offices, visits to Implementing Partners and intervention sites across the world, face-to-face interviews with beneficiaries and reviews of files and other evidence. It is clear that the programme as whole has had many achievements. These achievements include facilitating and stimulating policy debate and reform; the enactment of legislation for the elimination of child labour; and finally, direct action by taking over one hundred thousand children out of child labour or preventing children from entering child labour.

## SUMMARY OF EVIDENCE

12. We have analysed the completed audit reports covering 18 projects. The following paragraphs summarise the key evidence emerging from the projects we have audited:

### *Regarding the Financial Status Report*

i. The ILO has a well developed financial management system covering budgets, commitments and disbursements. We have reviewed the system as part of our general audit responsibilities for the ILO and have found that the system is generally reliable. Our audit of USDOL projects included examination of individual transactions to the extent that we considered necessary. The total project outlays and unliquidated obligations of the projects audited exceeded US\$ 50 million;

ii. Our detailed audit of financial transactions covered in excess of US\$ 15 million of project expenditure. Our audit identified the following issues:

⇒ US\$ 12,000 of irregular transactions.

⇒ US\$ 3,500 unvouched expenditure;

⇒ The loss or theft of computers and other equipment with a combined value of US\$ 3,000;

⇒ Expenditure totalling US\$ 25,000 which while not included in the Financial Status Reports at the time of our audit, and has been accounted for in a subsequent accounting period.

The ILO should take action to recover all irregular and unvouched expenditure.

iii. Two allegations of fraud were made against the projects we were auditing and these were referred to the ILO Internal Audit Unit for investigation. There were no cases of proven fraud;

iv. As regards the financial control exercised over implementing partners, we found that the ILO Offices and project teams had developed a variety of approaches. We saw some good examples of risk identification and risk management being implemented: for example

- In a high risk environment, formal audits had been commissioned;

- In a country with lower perception of risk, inspections were conducted by experienced project finance staff;

In other cases there was no evidence that visits to partners had addressed issues of financial control and expenditure;

v. Weak controls in this area expose the programme to the risk of irregular expenditure and financial loss. Indeed, we observed a correlation between weaknesses in control visits and the occurrence of errors and irregular expenditure;

vi. We found no material errors in the recording of un-liquidated obligations, except in one country where the use of a paying agent had resulted in a delay in bringing un-liquidated obligations to account. We found that although the paying agent had discharged some US\$ 500,000 of liabilities, they were incorrectly shown in the Financial Status Report as obligations rather than outlays. This was corrected in subsequent financial reports and is not an error – but an issue of timing;

vii. We found no material errors in the approval of budget revisions and the reporting of expenditure against budget lines;

### *Compliance with the terms of the co-operative agreement*

viii. Our audit included a review of the arrangements for contract letting. Our findings included:

- The identification and selection of implementing partners was often undertaken by an advisory Committee of child labour specialists, NGOs, Government bodies and the ILO. Main partners specified in the co-operative agreement were approved by USDOL. We observed that on occasions bodies represented at the advisory committee were appointed as implementing partners;
- USDOL accepted that procurement would be undertaken in accordance with ILO rules. The ILO provided a global waiver for competitive tendering of contracts let to implementing partners when specified circumstances were met;

- As regards other contracts (not action programmes) with a value below US\$ 20,000, these should be subject to formal tendering processes or documentation of alternative prices. In two cases we found that documentation was not available. The value of contracts affected was US\$ 700,000 in one instance; and US\$ 13,500 in the other. In one further case (US\$ 5,200) there were apparent weaknesses in the tendering process;
- ix. In one instance, we identified that an implementing partner had discharged its responsibly through a series of four sub-grants with a total value in excess of US\$ 80,000. This was in breach of the USDOL-ILO cooperative agreement. We observed that the sub-contracts had failed to replicate the standard USDOL cooperative agreements conditions, which exposed the ILO to a range of financial and performance risks;
  - x. We observed that up until mid-2006 some projects were paying stipends to beneficiaries. These have since ceased in line with the revised USDOL-ILO Management Procedure and Guidelines issued in August 2006;
  - xi. Since August 2006 we identified only one case (value US\$ 45) where cash payments were made direct to beneficiaries and one case of the purchase of alcohol (value US\$ 7), both of which contravened the USDOL rules current at the time;
  - xii. We found a general weakness in the monitoring of counterpart contributions to the projects we examined. In one case there was a comprehensive database used for monitoring counterpart contributions, but this was an exception as the project teams usually did not have the necessary information to ensure that pledged contributions were received;
  - xiii. In those countries which have ratified the UN Convention on Privileges and Immunities of the Specialized Agencies, the ILO should be exempt from paying local sales taxes (such as VAT), alternatively there should be arrangement to recover any tax paid. We found that in two countries which had ratified the Convention, the ILO had paid and not recovered VAT. We estimate the value of VAT at US\$ 480,000. In three other countries, none of which had ratified the convention, the ILO were seeking VAT exemptions;
  - xiv. We also observed that the ILO's tax exemption is only for ILO's direct expenditure and does not extend to implementing partners. This means that payments made by partners incurs unrecoverable VAT;
  - xv. USDOL asked us to consider whether the projects they funded were bearing their full costs for items such as rent and personnel. While the position on rent was generally clear, we found it hard to confirm that personnel, paid out of project funds, had devoted all of their time to that project. We also found occasions on which other ILO staff assisted with a project, and for which no time apportionment had been made;
  - xvi. The ILO does not maintain a time recording system for costing staff time to projects, and the cooperative agreement requires that the project be implemented according to ILO rules and procedures. It is ILO standard practice to estimate time spent on each of the projects for cost apportionment purposes. Against this background we have been unable to validate the time charged by staff who are not wholly devoted to one project;
- Reliability of GPRA Performance Data**
- xvii. We found that the definition of beneficiaries has evolved over time, with additional conditions being added. It was not always clear to us which definition was applicable. In addition, the USDOL had agreed with some project teams to vary the definition relating to the recognition and classification of beneficiaries. Although these changes were generally subtle, in some cases they had a significant impact on the number of beneficiaries reported by projects;
  - xviii. The complexity of the definitions, the changes made year-by-year, and the special agreements for specific projects, created areas of judgement in determining whether beneficiaries were withdrawn, prevented or otherwise. We found that it was not possible to establish a rigorous "yes/no" set of questions as a decision tree to determine the category of beneficiaries;



xix. In two instances we drew attention to what we perceived to be an unacceptable interpretation of the definition. In one case we considered that it was inappropriate to report that the action programme had resulted in an additional 4,580 children being withdrawn from child labour as the evidence suggested that these children would have attended school irrespective of the actions of the project. In another case, we observed that the project reported nearly 3,000 beneficiaries, but as the cost of the project was shared with other donors (USDOL 25%: others 75%) we questioned whether it was appropriate for the ILO to take credit for all the beneficiaries;

xx. Much beneficiary information is collected by implementing partners. We saw some examples of excellence with the ILO project team briefing partners on the application of the USDOL definition in the circumstances being addressed by the project. In other cases the standard definition was made available to partners without project specific guidance;

xxi. As auditors, we expected to see a clear and robust audit trail linking the number of children reported under the TPR with underlying evidence that the children met the USDOL definitional requirements. We examined the operation of the system at project level and at individual implementing partners;

xxii. At project level, our audit found that performance information was not collected on a consistent basis between the many project and programmes being administered by the ILO. For instance, there was no standard identification of the data required to demonstrate that beneficiaries met the USDOL definitions. Given the complexity of the definition, a standard approach would have assisted in simplifying the audit of the projects;

xxiii. We found that implementing partners had not adopted standardised procedures to collect, analyse and validate GPRA beneficiary numbers. Some partners had developed systems which operated well and produced reliable figures supported by appropriate evidence. Most of the systems were paper-based, and one system had been successfully computerised. However, in some cases we were unable

to audit beneficiary numbers due to shortcomings in record keeping;

xxiv. Typical problems encountered in auditing GPRA data included:

- Project Teams and implementing partners were unable to provide lists of beneficiaries with totals that agreed to the numbers reported in the TPR. It was often not possible to obtain a 'snapshot' of reported beneficiaries as at the date of the TPR;
- Lack of an audit trail to confirm key data regarding the beneficiaries and how they met the USDOL definitions. For example, evidence of employment status and services received under the project; and
- Inconsistencies between lists of beneficiaries and registers of attendees – such as at school;

In all cases where the evidence provided was inadequate or inconsistent, we sought alternative sources of evidence to support the reported GPRA figures. Typically we sought information from the ILO Project team. In those cases where we could not obtain alternative evidence, we had to exclude those cases we were unable to validate;

xxv. We visited a total of 75 partners<sup>1</sup>: in 18 cases (25%) we were able to agree the GPRA data. For the remaining 57 cases we found errors in the figures presented for audit. In virtually all cases we found that the number of beneficiaries had been overstated;

xxvi. Errors disclosed from our audit of GPRA data suggested that in some projects resources were being used to finance activities not provided for by the project – such as beneficiaries aged over 18. Due to the lack of developed financial management systems (such as Activity-Based Budgeting or Results-Based Management), in no instance were we able to estimate the cost of providing services to ineligible beneficiaries;

xxvii. Taken overall our completed <sup>1</sup> audits found that, compared to the reported total of 147,640 children benefiting from the

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<sup>1</sup> Child Soldiers data is not included

programme, our audited total was 134,970. The difference of 12,670 (8%) is mainly accounted for by incomplete evidence and our disagreement with definitional interpretations used by individual projects;

xxviii. Within the logistical and budgetary constraints of this work, it did not prove possible to audit every implementing partner. And because of the diversity of systems being used by implementing partners, we were unable to extrapolate the results of our audit visits to those partners we did not visit. We have therefore accepted without comment the reported figures for implementing partners we did not audit;

**Value for Money – Databases of Beneficiaries**

xxix. We observed that a number of projects independently developed databases of beneficiaries to facilitate data monitoring and beneficiary tracking. The costs of developing the databases were charged to projects.

xxx. In only one case was the database fully operational and suitable for audit purposes. Other databases were either not operational, or the data proved too unreliable to be used as the basis for the audit. Typical faults with the databases included:

- Data was over-written as new information was received and no copy of the database was taken at the TPR dates. Also, the design of the databases did not facilitate the reconstruction of the database at a particular point in time;
- Data controls were rudimentary with a lack of written procedures and little checking that data had been entered correctly – for example we found instances of children recorded as aged over 100 years;
- There was limited consideration of the privacy of data held relating to children and their parents;
- Lack of back-up procedures made the databases vulnerable to loss;

- Use of Excel spreadsheets where Access databases would have been more appropriate for large volumes of data; and

- Practical considerations require close consideration, including the availability of a reliable electricity supply, and an inter-net connection to send data to the project co-organisation point.

xxxi. Some of the databases we saw had benefited from the adoption of professional development standards. Others appeared to be poorly designed, with insufficient consideration given to data capture, control, validation, and reporting requirements. In no case did we form the opinion that the databases had been deliberately manipulated to misrepresent progress of the project.

xxxii. The collection and analysis of data relating to beneficiaries is an important element in the USDOL programme. We observed that many projects and implementing partners sought to computerise their record keeping. To the extent that computerisation projects were identified in the project proposals, both USDOL and ILO would have been aware of the multiplicity of systems being developed. But neither the ILO nor USDOL prepared guidance regarding the specification of computer systems in areas such as common standards, data requirements, analysis, reporting and internal control.



## AUDIT RECOMMENDATIONS

13. Based on the audit work undertaken at ILO HQ, at ILO field offices and with implementing partners, we make the following recommendations to strengthen the ILO's management of USDOL funded projects. Our recommendations may also benefit the management of projects funded by other donors. While our recommendations have been made in a constructive spirit, as per standard ILO audit follow-up and audit resolution procedures, it is the responsibility of ILO management for deciding whether to implement them and in assessing the impact of their introduction.

### Financial Matters

#### 1. Fraud Awareness

##### Observation

- 14. All projects bear an inherent risk of fraud. This may be financial fraud or deliberate manipulation of information – such as GPRA data. The risk of fraud should be taken into account at the project design stage.
- 15. Our discussions with project managers revealed that few had undertaken a review of the risk of fraud affecting their project.

##### Risk

- 16. Financial fraud reduces the availability of funds to meet the legitimate objectives of the project and help eliminate child labour.
- 17. Deliberate falsification of performance data undermines the integrity of the ILO.

##### Recommendation 1:

Project managers need to receive appropriate fraud awareness training and to design systems and controls that take account of their assessment of the risk of fraud affecting their projects.

#### 2. Expenditure

##### Observation

18. Expenditure can only be incurred on the purposes mandated by the USDOL/ILO co-operative agreement. The audits identified a number of instances where expenditure was outside the terms of the co-operative agreements. These cases are summarised above in the body of our report.

##### Risk

19. Any expenditure that is not a proper charge to the project or breaches the terms of the USDOL/ILO cooperative agreements may be rejected by USDOL.

##### Recommendation 2:

The ILO should take firm action to recover all irregular and unvouched expenditure.

### 3. Contract Letting

##### Observation

- 20. The identification and selection of implementing partners was often undertaken by an advisory committee of child labour specialists, NGOs, Government Bodies and the ILO. We observed that on occasions bodies represented at the advisory committee were appointed as implementing partners.
- 21. As regards contracts with a value below US\$ 20,000, these should be subject to formal tendering processes or documentation of alternative prices. In two cases we found that documentation was not available. The value of contracts affected was US\$ 700,000 in one instance, and US\$ 13,500 in another case;

##### Risk

22. Any perceived weakness in the ILO's contracting procedures represents a reputation risk. In some jurisdictions, failure to follow due process may result in legal challenge to contracts awarded – although the ILO may have immunity from prosecution.

##### Recommendation 3:

The ILO should ensure that contract letting procedures are strictly adhered to and that records are maintained to demonstrate that due process has been followed in all cases.

#### 4. Implementing partners

##### Observation

23. Implementing partners are integral to the delivery of USDOL funded projects. They generally utilise their own systems and procedures, and operate to their own norms and ethical standards. The ILO needs to establish procedures to confirm the performance of partners.

##### Risk

24. Failure to ensure that partners are following ILO operating agreements and ethical standards exposes the project to the risk of unauthorised expenditure and activities. Also that progress reports may not be thorough and reliable, which exposes ILO to the risk of mis-reporting to USDOL.

##### **Recommendation 4:**

Monitoring visits to implementing partners should be undertaken on a risk basis. Visits should always include a review of expenditure and procurement, the results should be recorded and unexpected results investigated.

#### Compliance with the Cooperative Agreements

#### 5. Direct Payments

##### Observation

25. Direct payments are an example of the use of USDOL moneys precluded by the co-operative agreement. While this, and other actions that cannot be funded from USDOL moneys, are well known to the project managers, we found that action was not being taken to confirm, during monitoring visits, that the terms of the co-operative agreement had not been breached by implementing partners.

##### Risk

26. Payments outside the terms of the co-operative agreement may fall to be repaid by ILO to USDOL.

##### **Recommendation 5:**

Recommendation 4 addresses this issue.

#### 6. Counterpart Contributions

##### Observation

27. Most USDOL projects specify a counterpart contribution, usually quantified. In one case we found that a comprehensive database had been established for monitoring counterpart contributions, but this was an exception as the project teams usually did not have the necessary information to ensure that pledged contributions in cash or in kind were received.

##### Risk

28. It must be the expectation of the donor that if they specify a counterpart contribution in the co-operative agreement, that ILO will document the receipt of that contribution and take action if it is not achieved.

##### **Recommendation 6:**

The ILO should ensure that all projects and implementing partners document the receipt of counterpart contributions and, except in exceptional circumstances, quantify them.

#### 7. Purchase Taxes

##### Observation

29. The ILO should be exempt from paying local sales taxes (such as VAT) in those countries which have ratified the Convention on the Privileges and Immunities of the Specialized Agencies. We found that the ILO did not have the necessary arrangements with the taxation authorities in two countries which had ratified the convention.

30. In three other countries, which had not ratified the Convention, the ILO was seeking an ad hoc agreement to recover VAT.

##### Risk

31. We estimated that at least US\$ 480,000 of irrecoverable VAT has been paid on USDOL projects in the two counties which have ratified the Convention.

##### **Recommendation 7:**

The ILO needs to ensure that taxation concessions are granted. The ILO offices should be consistently required to follow up on this matter.

The ILO should ensure that they are either exempt from taxes or recover taxes paid in all countries which have ratified the Convention.

## 8. Staff Time Usage

### Observation

32. Many organisations maintain a system of timesheets or time recording that allows staff to record their work on a day-by-day basis. How management use those timesheets to monitor the activities of staff is a key issue.

### Risk

33. USDOL asked us to consider whether the projects they funded were bearing their full costs for items such as personnel. Because the ILO does not maintain a time recording system for costing staff time to projects, we were unable to validate the time charged by staff not wholly devoted to a single project.

#### Recommendation 8:

The ILO may wish to consider whether there is a case for the introduction of timesheets on Technical Cooperation projects.

reported figures for beneficiaries and therefore had to exclude them from the audited beneficiaries figure.

#### Recommendation 9:

We recommend that the ILO should discuss and agree with the USDOL the data needed to support the USDOL cooperative agreements.

Issues to address include:

- Data required to be collected and validated by the implementing partners and project management teams;
- Quality assurance processes at the Implementation partners and at the ILO project offices (this represents an extension to recommendation 4);
- Application of the USDOL definitions; and
- Development of appropriate output costing tools.

## GPRA Performance Data

### 9. Collection and Validation of Performance Data

#### Observation

34. We observed that while the ILO has an established system for financial management information, the ILO has not developed an equivalent system for the collection of performance data.
35. As auditors we expect to find a reliable and robust audit trail linking the number of children reported under the TPR with underlying evidence that the children met the USDOL definition. Across all the audited projects, we were able to agree the GPRA data in just 25% of cases. For the remaining 75% cases, we found errors in the figures presented for audit.
36. We found cases where services had been provided outside the terms of the co-operative agreement – such as support to people aged over 18. In no instance was there a reliable costing system in place to estimate the cost of these ineligible services.

#### Risk

37. The lack of a structured system with supporting evidence meant that on many occasions we were unable to validate the

## Value for Money

### 10. Beneficiary Databases

#### Observation

38. We observed that in a range of projects action had been taken to establish databases of beneficiaries and to facilitate data monitoring and beneficiary tracking. In only one case was the database fully operational and suitable for audit purposes. The other databases were either not operational, or the data proved too unreliable to be used as the basis of the audit.

#### Risk

39. Duplication of effort is inevitable if each project develops its own data monitoring and tracking system. Lack of central direction on this issue has resulted in relatively poor value for money for the resources provided by USDOL for child labour elimination.

#### Recommendation 10:

The ILO needs to ensure with the USDOL that all further expenditure in this area is fully justified. It may be appropriate to undertake a stock-take of existing projects to identify and build on existing good practice, and consider if a standard system is possible.

**ANNEX A: Terms of Reference****EXTERNAL EXAMINATION OF THE ARRANGEMENT BETWEEN THE UNITED STATES OF AMERICA DEPARTMENT OF LABOR AND THE ILO**

1. The external examination must be conducted solely in conformity with the examination standards set forth in the International Standards on Auditing<sup>2</sup> and all terms and provisions established in this document which have been agreed to by the International Labour Organization (ILO), the National Audit Office of the United Kingdom (the External Auditor) and the U.S. Department of Labor (USDOL). While the External Auditor is not required to adhere to the provisions of the *Government Examination Standards, 2003 Revision*, published by the Comptroller General of the United States, the External Auditor will have regard to the standards for an examination level engagement in the Chapter on General, Field Work, and Reporting Standards for Attestation Engagements except where incompatible with examination standards that take precedence for the External Auditor.

2. In the event of a conflict or apparent conflict between the provisions of the Cooperative Agreement and any other term or provision agreed by the parties for the external examination, the Cooperative Agreement will prevail. Should any conflicts or apparent conflicts be identified and without prejudice to the independence of the work of the External Auditor, the External Auditor will notify the ILO and USDOL as soon as possible, and prior to initiating examination fieldwork or beginning another project examination, as applicable.

3. The examinations have three objectives, as follows:

- Form an opinion on whether the financial transactions reflected in the Financial Status Report (SF269) are presented fairly and in all material respects in conformity with generally accepted accounting principles as applied by the United Nations System of Accounting Standards;
- Determine whether the project is complying with all of the terms of the relevant cooperative agreement; and,
- Assess the reliability of the performance data reported on the project's most recent technical progress reports, based on a risk assessment to provide a sufficient assurance, through one or more visits to project field sites.

4. The External Auditor will conduct examination tests and express a written examination opinion or examination conclusion that addresses each of the three objectives above. The examination tests performed will be sufficient, in the opinion of the External Auditor, to address the following questions for each project.

5. Are the funds approved for this project being used for the purposes intended in the cooperative agreement and project document and is/was the project able to demonstrate achievement against its intended objectives?

6. Is the performance data submitted by the project timely, accurate and reliable? The External Auditor will provide commentary on underlying performance measurement systems, where appropriate.

7. Are the transactions reflected in the latest Financial Status Report submitted by the project presented fairly and in all material respects in accordance with generally accepted accounting principles as applied by the United Nations System of Accounting Standards? If not, what reported items are in error, what is the magnitude of the errors and where possible identify the reason for the errors?

8. Are disbursements plus valid obligations as of the date of the SF269 within the authorized budgets as at the date of the SF269 for each line item? If not, which line items have been exceeded, to what extent, and why?

9. In the opinion of the External Auditor, are there any significant observations in relation to the rate that the project is obligating funds?

10. For completed projects, were all obligations liquidated within 90 days after the project end date? If not, what was the amount of funds disbursed more than 90 days after the project end date and for what purposes?

11. In the opinion of the External Auditor, has the ILO instituted effective cash management practices, to limit cash on-hand to immediate needs, i.e., the funds needed for a 30-day period? Are petty cash fund balances restricted to the lowest amounts necessary, kept under adequate physical security and properly accounted for?

12. The External Auditor will provide an overall opinion on material compliance with the Cooperative Agreement and report transactions identified as part of the examination which did not comply with the terms of this agreement; the report will also include reasons for non-compliance, where these can be identified.

13. Did the examination find evidence of funds being used for sub-grants to organizations, groups, or individuals in a manner inconsistent with the terms of the Cooperative Agreement and, if so, how much? Have funds been used to provide direct payments to parents or children, and if so, how much?

14. Where prohibited by the terms of the Cooperative Agreement, did the examination find evidence that the project or its sub-contractors disbursed project funds to pay for inherently religious activities, such as religious instruction, worship, prayer or proselytizing, and if so, what amount of funds has been used for this purpose?

15. Are goods and services procured and sub-contracts executed in accordance with the terms of the Cooperative Agreement? The External Auditor will assess the extent to which the ILO has ensured that any sub-contractors comply with the terms and conditions of their sub-contracts, and require adequate documentation before issuing payments to sub-contractors.

<sup>2</sup> In December 2007 the UN Panel of External Auditors adopted the International Standards on Auditing in place of the "Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency"



16. Did the examination find any evidence of funds being used for lobbying the U.S. government? If so, what was the amount of funds used for this purpose?

17. Did the examination find any evidence of financial decisions not being made in a cost effective manner, in the opinion of the External Auditor, by the project?

18. Were financial transactions converted to U.S. dollars in accordance with ILO Financial Rules and practices?

19. Are property and equipment records maintained in accordance with the terms of the Cooperative Agreement, is equipment adequately safeguarded, and does physical verification confirm the accuracy of the inventory records?

20. If the face page of the project document establishes a requirement for counterpart contributions including cash and/or in-kind contributions, is the project receiving and tracking, where possible, the value of these contributions?

21. Is the project bearing the full cost – or, conversely, no cost – for personnel or items, such as rent, that benefit both the project examination and other projects?

22. Do adequate management controls exist over the disbursement of project funds and the collection/reporting of performance data?

23. Is there any evidence of fraud in the use of the funds or intentional falsification of reported programme results?

24. The Auditor shall assess the risks represented by all USDOL concerns regarding individual projects in the areas of financial management, GPRA performance data and compliance with USG and ILO regulations, as applicable, when planning the examinations, and will conduct examination fieldwork and report on all such USDOL concerns which are assessed at more than a low level of risk. Such concerns about individual projects may be communicated to the External Auditor by USDOL at any time prior to the initiation of examination fieldwork for the project.

25. In planning and conducting the examination, the External Auditor should refer to the Examination Guide for Attestation Engagements of ICLP Grantees and their Cooperative Agreements, prepared by an independent public accounting firm under contract with USDOL, for an understanding of the expected scope of the examinations and tests that may assist the External Auditor to assess the objectives and supplementary questions.

26. The Auditor shall be the External Auditor of the ILO, who shall be completely independent and solely responsible for the examination. The External Auditor shall be the sole judge as to acceptance in whole or in part of certifications and representations by the Director-General and may proceed to such detailed examinations and verifications as the Auditor chooses of all financial records, performance records and records/information relevant to compliance.

27. Whenever the scope of the examination is restricted or the External Auditor is unable to obtain sufficient evidence, the External Auditor shall refer to the matter in the report, making clear the reasons for their comments and the effect on the financial position

and the financial transactions as recorded, the validity of reported project results, and/or the External Auditor's confidence that the project is complying with applicable regulations and cooperative agreement provisions.

28. The examination report will include findings to explain the details of any discrepancies identified regarding the financial and performance reports and/or compliance with the applicable regulations and the provisions of the cooperative agreement. The findings will include sufficient perspective, such as the number of transactions with errors/deficiencies out of the total transactions tested for that purpose, to allow a reader to understand the significance of each finding. The External Auditor shall exclude from the examination opinion on the SF269 those costs which are considered not to comply with the provisions of the cooperative agreement, regardless of materiality to the financial reports, unless clearly inconsequential. When errors/deficiencies in the initial sample are material, the External Auditor will, if considered necessary in their professional judgment, expand the sample to support an estimated financial error in the examination report of the extent of non-compliance with cooperative agreement provisions. The report will also include an estimation of performance errors where these can be determined.

29. The External Auditor shall also include in the examination report recommendations to remedy each finding and improve internal controls over financial and performance reporting and project compliance, where warranted.

30. The External Auditor shall review and include in the report comments on follow-up action taken by the ILO on any prior examination findings relating to the project.

31. The External Auditor shall submit copies of the draft of the first examination report prepared under these Terms of Reference to the Director-General and USDOL. Comments from these parties regarding the extent of detail required, the presentation of the findings and the report format shall be addressed and the pilot report shall be finalized within 15 calendar days of receipt of the comments. USDOL may extend the timeframe for finalizing the pilot report should the extent or nature of the comments warrant additional time. Following the acceptance of the pilot report by the Director-General and USDOL, this report will serve as a model for the preparation of the remaining examination reports.

32. Copies of examination reports will be submitted by the External Auditor to the Director-General and USDOL upon completion of each examination.

33. On provision of a named list of appropriate addresses by the USDOL, the External Auditor will despatch three copies of each final examination report to the USDOL Procurement Services Centre and the Grant Officer's Technical Representative for the appropriate USDOL-ILO technical cooperation program.

## ANNEX B: Audit Scope

### Scope of the Examination

The main purpose of the audit was to form an opinion on the reliability of the performance data provided to USDOL by the ILO and to determine if the information in the Financial Status Report has been fairly stated. The external Audit has been conducted in accordance with external audit terms of reference agreed between USDOL and the ILO. A copy of the terms of reference is at Annex A. In summary, we are required to:

- form an opinion on whether the financial transactions reflected in the Financial Status Report are presented fairly and in all material respects in conformity with generally accepted accounting principles as applied by the United Nations System of Accounting Standards;
- determine whether the project is complying with all of the terms of the relevant cooperative agreement; and
- assess the reliability of the performance data reported on the project's most recent technical progress reports, based on a risk assessment to provide a sufficient assurance, through one or more visits to project field sites.

Our planning included discussion with USDOL, ILO IPEC in Geneva and Internal Audit at ILO as to identify any specific concerns that they had relating to the project. We used this information to ensure the audit included a review of these issues.

### Examination standards

The ILO is responsible for preparing the Financial Status Report and for the maintenance of proper accounting records and supporting information. The ILO is also responsible for collecting and validating performance data and preparing the Technical Progress Report for USDOL.

We are responsible for expressing an opinion on the financial and performance information based on evidence obtained from the ILO and implementation partners.

The audit of the Financial Status Report was conducted in conformity with the International Standards on Auditing and the agreed terms of reference for the examination. Auditing standards require that the examination be planned and performed so as to obtain reasonable assurance that the relevant financial statements are free from material misstatement. Our audit cannot be relied upon to find all errors that may exist.

In accordance with International Standards on Auditing, the examination included a general review of the accounting systems and internal control procedures. Our approach has also considered the risks of fraud and error.

Auditing standards are not prescriptive regarding the work that an examiner needs to perform in reporting on non-financial information. The approach we adopted was consistent with that for the financial

examination: we planned and performed the examination so as to obtain reasonable assurance that the reported performance data has been reliably stated. As with the financial systems, our examination cannot be relied upon to find all errors that may exist.

### Examination Approach

Projects typically have actions across a number of sites. The auditor is not required to visit all implementation locations. For each project audited we visited a sample of sites designed to give us assurance on the overall progress of the project.

Our programme of visits was designed using a risk based approach. Factors taken into account in selecting locations to visit included, as applicable to the project being examined:

- Specific risk areas identified during planning by the External Auditor;
- Safety Issues and Security Phases of Project Sites;
- Geographical Coverage;
- Contribution of implementing partners to overall GPRA data reported; and
- Any USDOL concerns with respect to specific project sites.

Our audit work at each implementing partner did not include the testing of every reported beneficiary. Instead we performed detailed testing of a sample of beneficiaries and used analytical review procedures to draw overall conclusions from each visit. If errors were identified during initial testing, where time allowed, we sought to increase our sample sizes and performed additional testing before drawing final conclusions.

At each implementing partner visited, we examined the financial and performance records maintained and visited project activity sites and met project beneficiaries.



## ANNEX C: Definitions adopted by USDOL

(Technical Progress Report September 2007)

### Definitions

**1. Child labour** refers to work that is unacceptable for children because:

- the child is either too young to enter work or employment, or because the work prevents a child from attending school regularly or impedes a child's ability to learn (see Convention No. 138); or
- the hazardous conditions under which the child works and the safety, health, and environmental hazards to which the child is exposed as well as the duration of work (Arts. 3 of Convention No. 138 and 3(d) of Convention No. 182).
- The work concerned falls under the "unconditional" worst forms of child labour specified in Art. 3 (a) – (c) of Convention No. 182 (see below under 2).

Projects are encouraged to consult Recommendation 190 accompanying Convention No. 182, as well as national legislation, for additional guidance on identifying hazardous work.

**2. Children withdrawn:** This refers to those children who were found to be working in child labour (i.e., work that should not be allowed for children – see definition above) and no longer work in such unacceptable work as a result of *educational services and/or training opportunities or other non-education related services provided by a project*. This category includes children completely withdrawn from child labour, as identified under ILO Conventions Nos. 138 and 182. It also includes those children that were engaged in hazardous work (see definition 1 above) or work that impedes their education and as a result of a project intervention their work is no longer considered hazardous (e.g., shorter hours, safer conditions) and it does not interfere with schooling. For children **not** involved in an "unconditional worst form of child labour," hazardous work conditions may be improved so as to make the work conditions acceptable for children who have reached the legal minimum working age. **However, conditions can only be improved for children who are of legal working age according to the specific laws of the implementing country (ies).** This may include, for example, reducing hours of work or changing the type of work children perform (disallowing children in agriculture from working with heavy machinery or pesticide applications).

Children involved in the unconditional worst forms of child labour as defined in ILO Convention 182, Article 3, (a) – (c), must no longer be working to be considered as withdrawn from exploitative work. That is, no improvements in the working conditions of children involved in slavery or slavery like practices, prostitution or pornography, or illicit activities will create an acceptable environment for children to work, even for one hour. Children intercepted or rescued from being trafficked may also be considered as withdrawn from an exploitative situation since the moment they become victims of trafficking (even though still in transit to the "place of work") they have already entered an unacceptable situation bound to lead to child labour. To count a child who is intercepted or rescued from being trafficked as withdrawn, a project must also confirm that the child is not engaged in any other form of child labour.

**NOTE:** Enrolment in school is not the sole consideration that defines a child as withdrawn from child labour. For example, a child who attends a non-formal education program in the morning and works under hazardous conditions in mining during the afternoon and evening should not be counted as withdrawn. That is, if before program intervention, a child is not going to school and is working in a worst form of child labour and after program intervention the child is now enrolled in school but continues to work in a worst form of child labour that child is not, by definition, withdrawn from child labour and should not be counted in the withdrawn indicator. The process of withdrawing a child from the worst forms of child labour may take some time. Children should only be counted as withdrawn at the point at which the child is no longer working in child labour (this includes no longer working at all or working under improved working conditions such as shorter hours and/or safer conditions) and is benefiting from the education program(s) provided by the project.

**3. Children prevented from entering work:** This refers to children that are either a) siblings of children engaged or previously engaged in child labour that are not yet working or b) those children not yet working but considered to be at high-risk<sup>3</sup> of engaging child labour. In order to be considered as “prevented”, these children must have benefited directly from a project intervention.

4. Definition of “educational services and/or training opportunities” as applicable to Part A: The definition of “educational services and/or training opportunities” includes at least one of the following services provided by the project:

- Non-formal or basic literacy education as demonstrated by enrolment in educational classes provided by the program. These classes may include: transitional, levelling, or literacy classes so that the child may either be mainstreamed into formal schooling and/or can participate in vocational training activities;
- Vocational, pre-vocational or skills training as demonstrated by enrolment in these training courses in order to develop a particular skill (mechanics, sewing, etc);
- Mainstreaming into one of four educational activities (1) formal education system, (2) non-formal education, (3) vocational, (4) pre-vocational or skills training after having received assistance from the project to enable them to enrol. The assistance provided by the project could include one or more of the following services: the provision of nutrition, uniforms, books, school materials, stipends, or other types of incentives that meet the specific needs of the targeted child and results in their enrolment in one of these four educational activities.

**Note:** It is not necessary that a child must be enrolled in an educational/training service directly provided for by the project, but that a child has been “referred” to an educational/training programme as a direct result of the project’s intervention.

**5. Definition of “other non-education related services” as applicable to Part B:** “Other non-education related services” that are instrumental in withdrawing and preventing children from exploitative/hazardous work could include face-to-face counselling, income generation and/or skills training for parents of working children or children at risk, and other types of interventions that allow the child to be withdrawn or prevented. This part of the table is intended to capture those children considered to be withdrawn or prevented from exploitative work as a result of a project intervention that is not linked to the provision of educational services or training opportunities and for whom it is not necessary to provide educational services as part of the efforts to withdraw or prevent them from work. For example, a child previously forced into prostitution, should be considered withdrawn from exploitative work after the project has provided her/him with medical services, counselling and ensured her/his reintegration back into the family. Do not include children for which the package of services to be provided by the project includes educational or training opportunities as these children will be included under Part A at the time of enrolment.

<sup>3</sup> A “high risk” situation refers to a set of conditions or circumstances (family environment or situation, vicinity of economic activities known to employ children, etc.) under which the child lives or to which it is exposed. Children at high risk of engaging in exploitative/hazardous work could also include children who are not yet in school as well as those currently in school but at high risk of dropping out. Usually a clear definition for “high-risk” is provided in the project document. If not, the Project Manager should define “high risk” in the context of the project.

**ANNEX D: Projects Audited**

<b>Year</b>	<b>Project Short Description</b>
2005	Supporting the time-bound program for the elimination of the worst forms of child labor in Ecuador
2005	Contribution to the prevention, attention and combat of commercial sexual exploitation of children in Mexico
2005	Supporting the time bound program in Nepal
2005	Supporting the Time-Bound Program on the elimination of the worst forms of child labor in Pakistan
2005	Combating the worst forms of child labor in Madagascar
2005	Priority research to support the implementation of ILO Convention No. 182
2005	Contribution to the prevention and elimination of Commercial Sexual exploitation of children in Central America, Panama and the Dominican Republic
2005 & 2006	Preventing and eliminating child labor in identified hazardous in India (INDUS)
2005 & 2006	Prevention and reintegration of children involved in armed conflict: an inter-regional program <sup>4</sup>
2006	Prevention and Elimination of Child Domestic Labor (CDL) and Commercial Sexual Exploitation of Children (CSE) in Colombia, Chile, Paraguay and Peru
2006	Philippines Time-Bound Programme
2006	Supporting the Time Bound Programme on the elimination of the worst forms of child labour in Senegal
2006	Pilot direct action, research, capacity-building and networking programme for preventing the entrance of HIV/AIDS orphans and HIV/AIDS affected girls and boys into child labour
2006	Combating the worst forms of child labour in Turkey
2006	Jordan broad-based country programme to combat child labour
2006	Programme of Support to the national time bound programme for the elimination of the worst forms of child labour in Ghana
2006	Country Programme to combat child labour in Malawi

**Count: 19**

The following projects were removed from the original programme and replaced.

2006	Supporting the time bound programme in Lebanon and Consolidating action against the worst forms of child labour in Yemen
2006	Emergency response to child labour in selected Tsunami affected areas in Sri Lanka
2005	Sustainable elimination of bonded labor in Nepal

<sup>4</sup> Audit ongoing.