



## Governing Body

326th *bis* Session, Geneva, 30 May 2016

GB.326bis/PFA/PV

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**Programme, Financial and Administrative Section**  
*Programme, Financial and Administrative Segment*

**PFA**

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## Minutes of the Programme, Financial and Administrative Section of the Governing Body at its 326th *bis* Session (May 2016)

### First item on the agenda

#### **Financial report and audited consolidated financial statements for the year ended 31 December 2015** (GB.326bis/PFA/1)

1. The Programme, Financial and Administrative Section of the Governing Body met on 30 May 2016. It was chaired by the Chairperson of the Governing Body. Mr Cortebееck and Mr Mdwaba were the Worker and Employer spokespersons, respectively.
2. *A representative of the Director-General* (Treasurer and Financial Comptroller) made brief introductory comments on the financial statements for the year ended 31 December 2015. He confirmed that the officers of the Board of the ILO International Training Centre in Turin had met on 17 May 2016 and approved the Centre's financial statements for the year ended 31 December 2015, which were consolidated with those of the ILO.
3. The general purpose financial statements (Statements I through IV) had been prepared in accordance with International Public Sector Accounting Standards (IPSAS) on a full accrual basis and reflected one year's financial activity. In contrast, Statement V-A reported the biennial financial performance of the Office on a modified accrual basis in accordance with the Financial Regulations. Note 24 provided a reconciliation of the results presented under Statement II and Statement V-A.
4. The value of the consolidated net assets of the Organization had decreased over the previous 12 months by some US\$91 million, mainly attributable to growth in the after-service health insurance (ASHI) liability. The budgetary surplus of some \$11.1 million resulted principally from the non-materialization of projected inflation. Assessed contributions received from member States were some \$10.5 million below the budgeted income level for the biennium. That shortfall and the mandatory reimbursement of the prior biennium's deficit of \$16.8 million more than offset the budgetary surplus of \$11.1 million. The result for 2014–15 on a budgetary basis was a net deficit of \$16.2 million which had been covered by

the Working Capital Fund and subsequently been reimbursed from arrears of contributions received during the first few months of 2016. In summary, the working capital and liquidity positions of the Organization remained strong.

5. Regarding the External Auditor's long-form report to the Governing Body, he stated that the Office had accepted all of the recommendations made and had commenced implementing a number of them.
6. Ms McMahon, *Assistant Auditor General of Canada*, presented the External Auditor's report and the results of the audit of the ILO's accounts for the year ended 31 December 2015. The financial statements had been presented fairly and in accordance with IPSAS, and the External Auditor had consequently expressed an unmodified opinion on them. In addition, the External Auditor had found the key estimates made by management to be reasonable. With regard to the health insurance plan, significant internal control weaknesses still needed to be addressed. In order to tackle the ASHI liability, the ILO was encouraged to implement the efficiency measures recommended by the United Nations (UN) inter-agency Working Group on ASHI. The External Auditor had also reviewed how the risk management process had been defined and implemented throughout the Organization, noting that it had taken a phased approach to implementation of a risk management strategy. The ILO was encouraged to capitalize on the momentum in completing the risk registers, evaluating them and tying the issues identified into the Organization's consolidated risk register.
7. In addition, since the Auditor General of Canada was completing the last year of his mandate as External Auditor, his staff had evaluated the progress made on his prior recommendations. In the area of governance, the issues identified in 2013 had been addressed, transparency had increased, and the External Auditor was satisfied with the governance framework in place for the ongoing renovation of ILO headquarters. In the area of human resources, the External Auditor noted the progress made in assessing the impact of training at the organizational level, as well as the positive impact of the Mobility Policy and Employee Profile tool on succession planning. He continued to encourage the development of succession plans for key positions.
8. Benefits seen from conversion to IPSAS included improved timeliness of financial reporting, particularly for the Turin Centre, consistency of presentation of results across the UN, and availability of better costing information that could be used to demonstrate transparency and accountability.
9. Speaking on behalf of the Governing Body, the *Chairperson* expressed its appreciation to the Auditor General of Canada and his staff for their excellent work during the previous eight years of his mandate as the ILO's External Auditor.
10. Ms Malik, *Chairperson of the Independent Oversight Advisory Committee (IOAC)*, reported on the Committee's review of the financial statements for 2015 and the External Auditor's report, and said that all accounting policies had been applied consistently.
11. Having received satisfactory replies from both the Office and External Auditor on a number of points of technical clarification, the Committee had no accounting issues to bring to the attention of the Governing Body. It noted with appreciation that the opening section of the report was more analytical, welcomed the improved readability of the financial statements and encouraged the Office to provide a concise narrative for the benefit of stakeholders.
12. The significant impact of unfunded ASHI liability continued to erode the Organization's net assets. The Committee reiterated its recommendation that the liability should be funded and encouraged the Office to continue to explore other cost-reduction options, such as third-party administration and synergizing with other self-administered plans based in Geneva. It

was pleased that the Office was addressing the Internal Audit Office's recommendations on internal controls of claims processing in the Staff Health Insurance Fund (SHIF).

13. The Committee noted that there had been a reallocation of assets in the Organization's investment portfolios, which would require continued vigilance in order to limit financial risk. Based on its review and discussion with the External Auditor, it was satisfied that the risks identified in the 2015 audit plan had been satisfactorily addressed. It concurred with the Auditor's recommendations regarding the risk management process and would monitor implementation of the plan.
14. The Committee was pleased that the Office had continued its measured approach to introduction of the Statement of Internal Control, which was expected to further strengthen internal accountability and integrity. It should, however, accelerate follow-up to the External Auditor's previous recommendations to the Governing Body.
15. Lastly, she noted that the Office had once again achieved an unmodified audit opinion, with which the Committee concurred.
16. *The Worker spokesperson* noted with satisfaction that the External Auditor had expressed an unmodified audit opinion on the 2015 consolidated financial statements in accordance with IPSAS.
17. It was important for the ILO to continue to take part in the UN inter-agency Working Group on ASHI. His group looked forward to considering the report on that issue at the March 2017 session of the Governing Body and reiterated its expectation that the administration would consult with the Staff Union before any decision on the matter was taken. With regard to the SHIF, steps should be taken to ensure timely payment of claims to members and to prevent fraud.
18. His group had noted with interest the Office's follow-up to previous recommendations and invited it to continue to improve risk management and to develop a comprehensive succession planning process.
19. *The Employer spokesperson*, noting that the ILO had once again received an unmodified audit opinion and had simplified its financial statements, commended the Organization on its four years of compliance with IPSAS.
20. The findings on the SHIF were of particular concern. The Office should speed up its efforts to ensure that proper internal controls and oversight over payments were in place and make the issue a priority for follow up. He thanked the Auditor General of Canada and the Chairperson of the IOAC for drawing attention to the growing unfunded ASHI liability and looked forward to receiving continuing updates based on discussions in the UN inter-agency Working Group on ASHI.
21. Lastly, his group noted with appreciation the Office's efforts with regard to enterprise risk management and encouraged it to take the additional steps recommended in the report of the External Auditor.
22. *Speaking on behalf of the Africa group*, a Government representative of Zimbabwe said that her group welcomed the information provided in the report and agreed that the ASHI liability should be funded.
23. *Speaking on behalf of the group of industrialized market economy countries (IMEC)*, a Government representative of the United States said he was pleased that the External Auditor was generally satisfied with the Office's follow-up to previous reports and had been able to

issue an unmodified opinion on the financial statements. He was also pleased to note that the ILO had been fully compliant with IPSAS for the fourth consecutive year and that the financial statements had been simplified. He welcomed the generally positive assessment by the IOAC.

24. He wished to thank the Office of the Auditor General of Canada for serving as External Auditors to the ILO for two consecutive mandates.
25. Lastly, IMEC supported the draft decision.

### **Decision**

26. *The Governing Body took note of the External Auditor's report and forwarded the consolidated financial statements for the year ended 31 December 2015 and the External Auditor's report thereon to the Conference for consideration and adoption.*

(Document GB.326bis/PFA/1, paragraph 4.)

Geneva, 30 May 2016