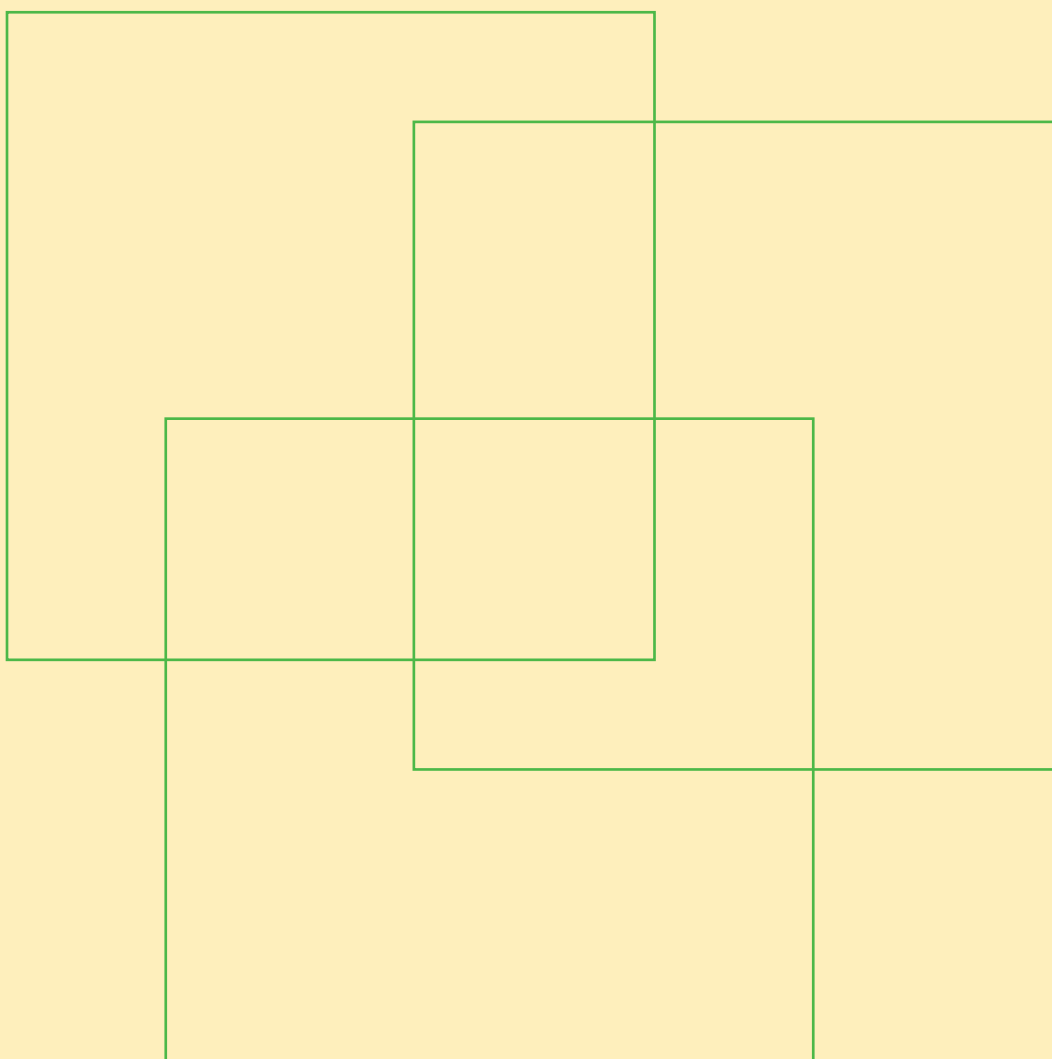




International
Labour
Office
Geneva

Financial report and audited consolidated financial statements for the year ended 31 December 2017

and Report of the External Auditor



International Labour Organization

Financial report
and audited consolidated financial statements
for the year ended 31 December 2017

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Contents

	<i>Page</i>
1. Financial report on the 2017 accounts.....	1
2. Statement of Internal Control for the year ended 31 December 2017	13
3. Approval of the consolidated financial statements for the year ended 31 December 2017	17
4. Audit opinion of the External Auditor to the Governing Body of the International Labour Office	19
5. Consolidated financial statements for the year ended 31 December 2017	23
Statement I. Consolidated statement of financial position	24
Statement II Consolidated statement of financial performance	25
Statement III Consolidated statement of changes in net assets	26
Statement IV Consolidated statement of cash flow	27
Statement V-A Statement of comparison of budget and actual amounts: Regular budget.....	28
Statement V-B Statement of comparison of budget and actual amounts: Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR)	29
Statement V-C Statement of comparison of budget and actual amounts: International Training Centre of the ILO (ITC)	30
6. Report of the External Auditor to the Governing Body	79
7. Appendix	119

1. Financial report on the 2017 accounts

Introduction

1. The 2017 consolidated financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and consolidate all of the operations under the direct authority of the Director-General including the regular budget, extra-budgetary funded activities, the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR), the International Training Centre of the ILO (ITC), the Administrative Tribunal of the ILO and the ILO Staff Health Insurance Fund (SHIF) activities.
2. The Financial Regulations specify a biennial financial period; however for general purpose financial reporting in accordance with IPSAS, annual financial statements are presented. For the purpose of actual versus budget comparisons, in Statements V-A to V-C the final annual budget amounts for 2017 represent one half of the approved biennial budget, to which is added the balance remaining unspent at the end of the first year of the biennium and any appropriation transfers authorized by the Governing Body. Statements V-A to V-C also include biennial results.
3. The financial statements prepared under IPSAS use full accrual-based accounting which requires the recognition of transactions and events when they occur. In particular, revenue from voluntary contributions to development cooperation is recognized when the ILO delivers the services specified in the agreement with the donor, rather than when cash is received or pledged. Expenses are recognized when services or goods are received or delivered rather than when cash is paid. The value of future employee benefits such as accumulated leave, repatriation entitlements, and after-service health insurance (ASHI) is recognized in the financial statements in the period when these benefits are earned by ILO staff rather than when they are paid.
4. Reporting general purpose financial statements on an IPSAS basis has no impact on the preparation or reporting of the ILO regular budget result, which continues to be presented on a modified cash basis in accordance with the Financial Regulations. As the basis of the budget and the financial statements differ, a reconciliation between the budget and the IPSAS statement of financial performance is presented in Note 24 to the Financial Statements.

Financial highlights for 2017

5. The table below summarizes the financial situation of the ILO in 2017 as compared to 2016 and 2015 (the second year of the previous biennium):

(US\$ millions)	2017	2016	2015
Revenue	663.5	655.0	701.1
Expenses	(736.0)	(674.9)	(757.8)
Foreign exchange gains/(losses)	43.3	(1.9)	12.5
Surplus (deficit)	(29.2)	(21.8)	(44.2)
Assets	1 852.9	1 717.1	1 607.8
Liabilities	2 521.5	1 984.1	1 816.3
Net assets	(668.6)	(267.0)	(208.5)

6. The consolidated deficit for 2017 is US\$29.2 million as compared to a deficit of US\$21.8 million in 2016 and a deficit of US\$44.2 million in 2015. An analysis of revenue and expenses is provided in the following sections.

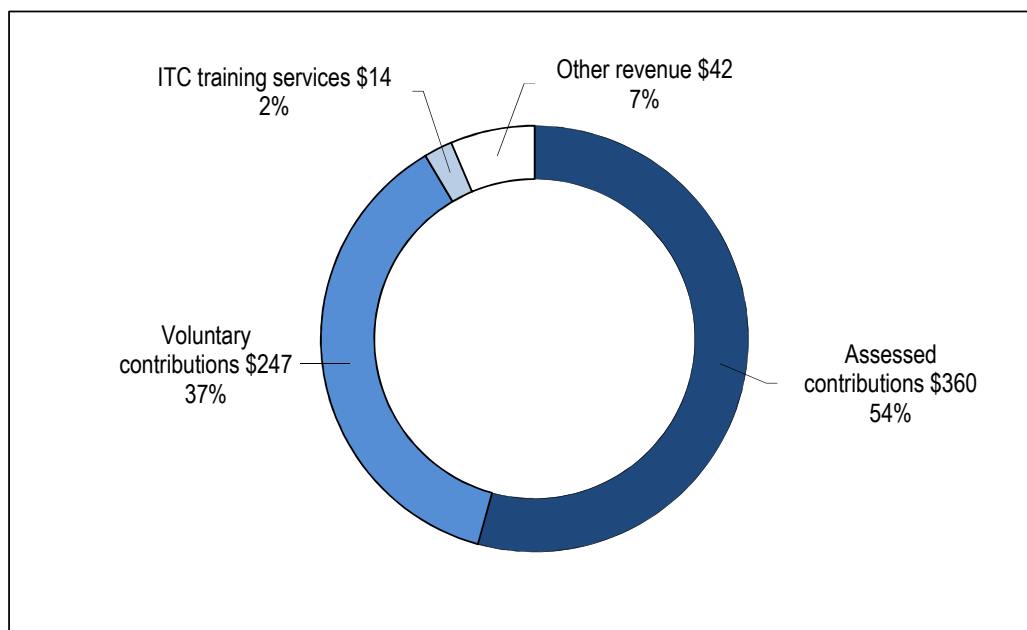
7. The decrease in net assets from negative US\$267.0 million in 2016 to a negative US\$668.6 million in 2017 is mainly attributable to an increase in the After Service Health Insurance liability (ASHI) and a decrease in the fair value of land and buildings. Further information on the most significant movements in assets and liabilities, in particular ASHI, is provided later in this report. The consolidated statement of changes in net assets (Statement III) provides the details of the movements in net assets.

Financial performance

Revenue

8. Revenue in 2017 totalled US\$663.5 million (US\$655.0 million in 2016) and is composed as follows:

Figure 1. Revenue by source, 2017 (US\$ millions)



9. The two principal sources of revenue in 2017 were assessed contributions from member States and voluntary contributions. These represented 91 per cent of ILO revenue.

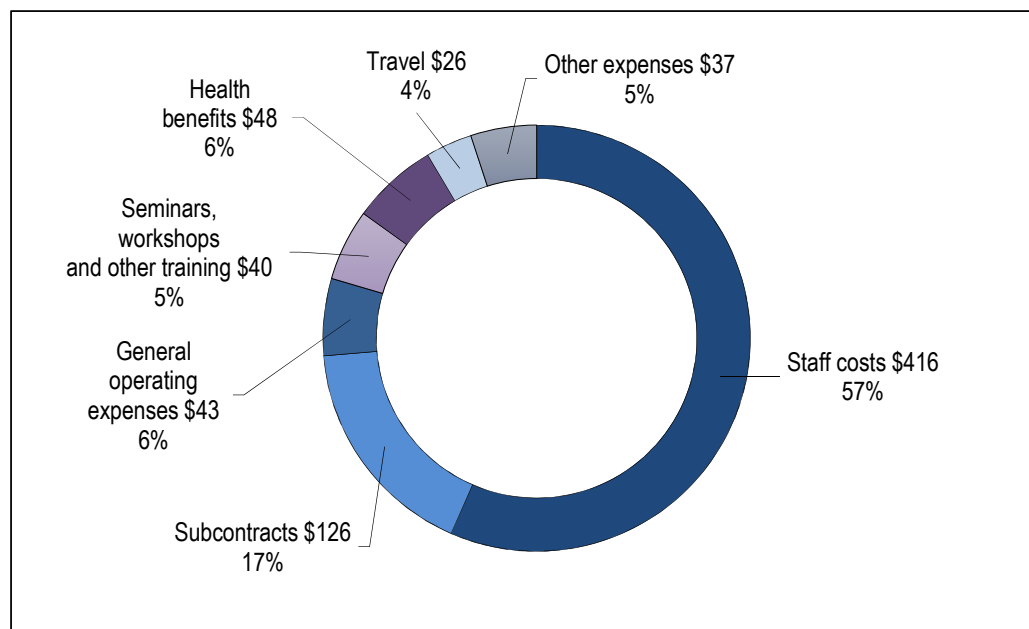
10. In 2017, the total revenue increased by US\$8.5 million compared to 2016, or 1.3 per cent. This resulted principally from an increase of voluntary contributions earned of US\$26.1 million due to higher development cooperation delivery and an increase in revenue from ITC training services (US\$1.8 million), partially offset by a decrease in the US dollar value of assessed contributions from member States (US\$22.8 million), which are assessed in Swiss francs.

11. Other revenue in figure 1 includes revenue from sales and royalties, staff contributions to benefit plans, investment income and other revenue and has increased by US\$3.4 million as compared to 2016. The investment income totalled US\$7.7 million, representing an increase of US\$1.8 million from 2016 due to an increase in the rate of return on holdings in United States dollars and the continuing level of available funds which enabled the Organization to invest in classes of assets with longer maturity and higher interest rates.

Expenses

12. Expenses in 2017 totalled US\$736.0 million (US\$674.9 million in 2016) and were distributed as follows:

Figure 2. Expenses in 2017 (US\$ millions)



13. In 2017, expenditure increased by US\$61.1 million or by 9.1 per cent as compared to 2016. This was consistent with the ILO's historic pattern of comparatively higher expenditure in the second year of a biennium.

Foreign exchange gains/losses

14. In line with the recommendation of the UN Task Force on Accounting Standards, net exchange gains and losses previously presented under revenue or expenses have been presented as a separate line in Statement II. In accordance with the Financial Regulations and decisions of the International Labour Conference (ILC), exchange movements relating to the regular budget are managed through the net premium account, netting off gains and losses and providing protection to member States. They are not recorded as a revenue or expense item in Statement V but are accumulated in the Net Premium account which is returned to the member States at the end of each biennium (see Note 18 to the Financial Statements).

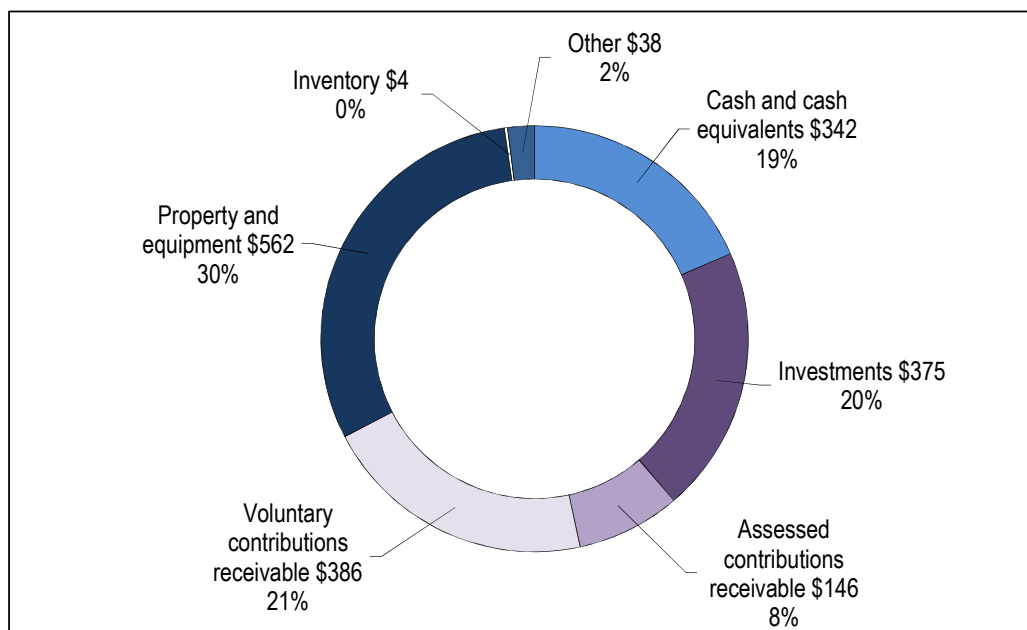
15. In 2017, the net gain on foreign exchange was US\$43.3 million of which US\$26.3 million represents unrealized gains resulting from the revaluation of assets and liabilities held in currencies other than the United States dollar and US\$17.0 million represents realized exchange gains and losses including the gain of \$14.3 million on the forward purchase agreements. Both the realized gains and those due to revaluation were impacted by a positive change in the CHF:US\$ exchange rate.

Financial position

Assets

16. Assets as at 31 December 2017 totalled US\$1,852.9 million (US\$1,717.1 million as at 31 December 2016) as follows:

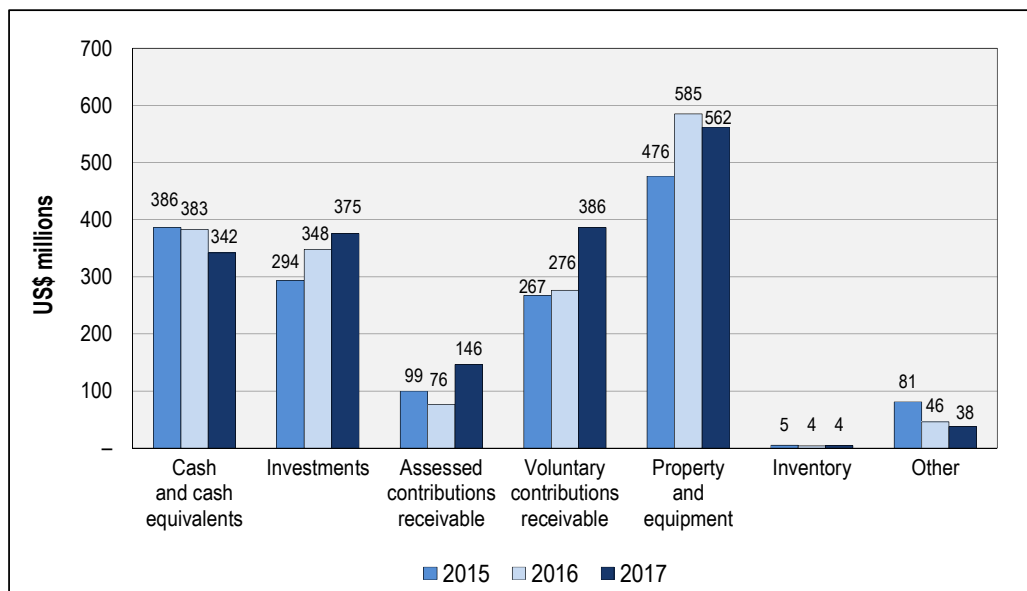
Figure 3. Assets (US\$ millions)



17. Cash, cash equivalents and investments totalling US\$717.2 million (US\$730.7 million as at 31 December 2016) were the largest component of assets as at 31 December 2017 representing 38.7 per cent of the total assets. Of this amount, US\$262.4 million or 36.6 per cent (US\$211.8 million or 28.9 per cent at 31 December 2016) corresponded to funds held on behalf of donors for development cooperation projects. Property and equipment and Voluntary contributions and Assessed contributions receivable were the other significant asset components.

18. Figure 4 provides a three-year comparison by asset category:

Figure 4. Assets, three-year comparison

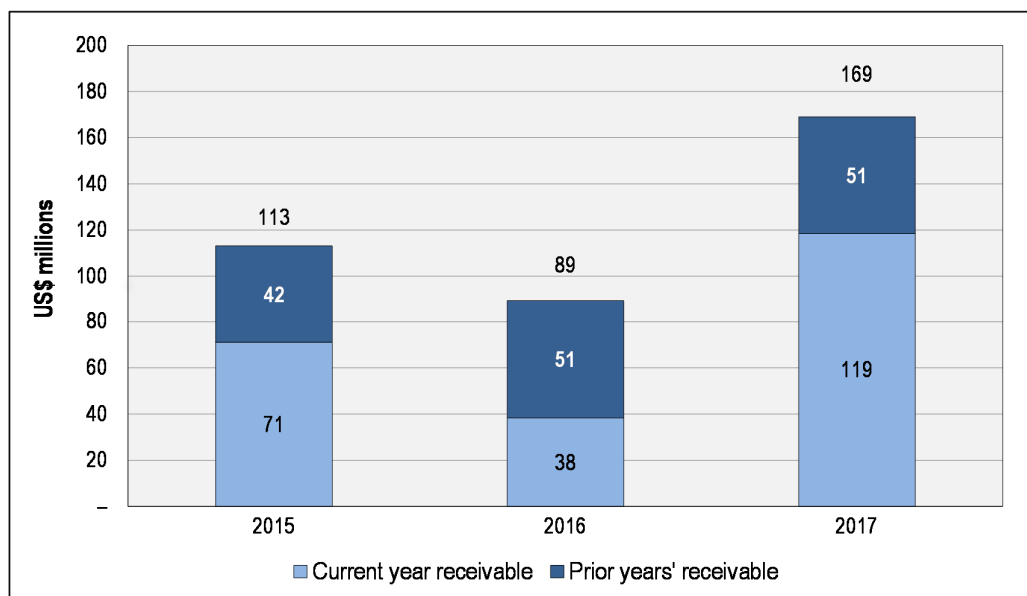


Assessed contributions receivable

19. Due to the lower collection rate on current year contributions in 2017, the level of assessed contributions receivable increased by US\$79.6 million to US\$169.1 million as at 31 December 2017, prior to the required adjustment for member States which had lost the right to vote.

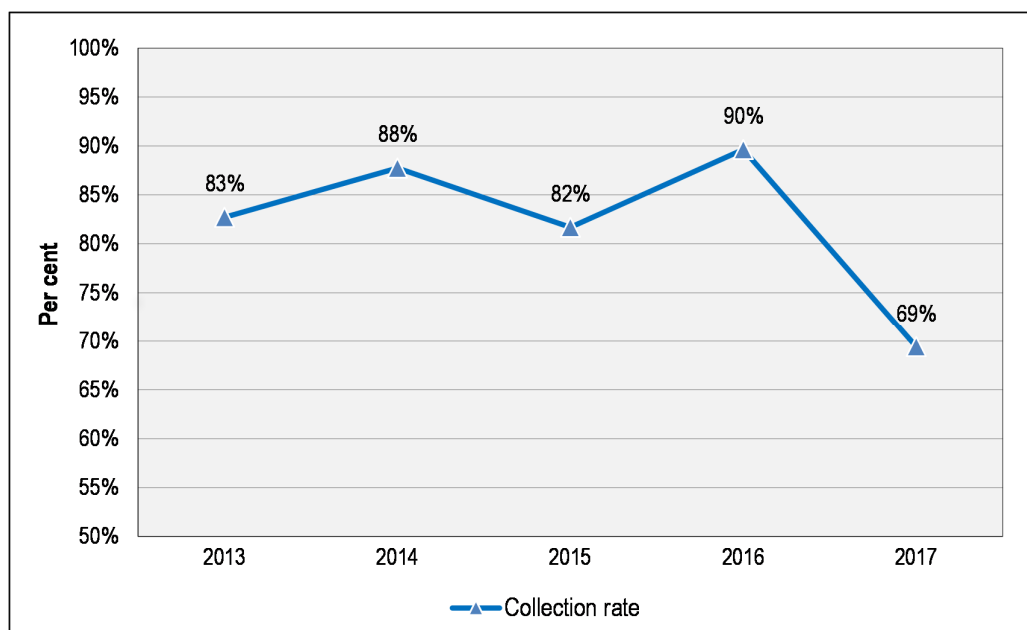
20. Figure 5 summarizes the assessed contributions receivable balances and their components at the end of each of the last three years:

Figure 5. Assessed contributions receivable



21. The trend in collection rate for current year assessed contributions is reflected in figure 6 below:

Figure 6. Assessed contributions collection rate (in the year of assessment)



22. The unusual significant drop in the collection rate as compared to the usual patterns in the second year of the biennium is mainly due to the delay in the payment of current year contributions by large contributors. It should be noted, however, that of the uncollected amounts, 37 per cent of arrears relating to the 2017 contributions were received during the first three months of 2018.

23. A provision of US\$20.3 million has been made in respect of the amount due from 17 member States that had lost the right to vote at 31 December 2017 and amounts due by States for prior periods of membership in the ILO. More detailed information on assessed contributions can be found in Note 30 and Note 31 to the Financial Statements.

Property and equipment

24. Property and equipment with the total value of US\$561.9 million is mainly composed of land and buildings which had a market value of US\$546.6 million.

Land

25. The total value of land decreased by US\$65.2 million. The decrease is composed of a decrease in the market value of the land in Geneva by US\$66 million offset by a minor increase in some field locations. The significant decrease in Geneva is caused by a decline in real estate values for the kind of buildings that could be constructed on ILO land.

Buildings

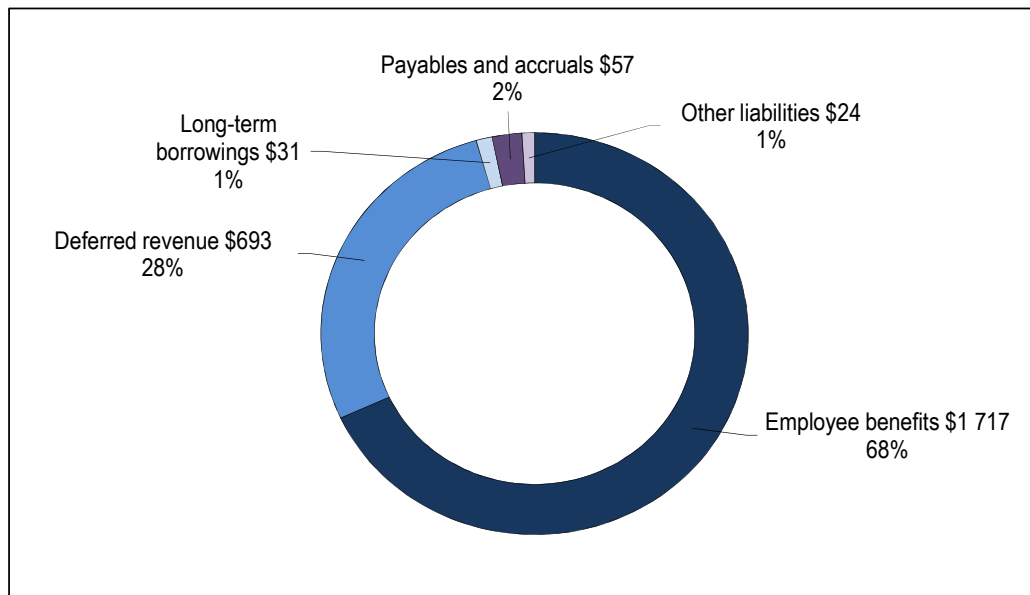
26. The total value of buildings increased by US\$40.3 million mainly attributable to an increase in the market value of the headquarters building by US\$38.8 million due to the

renovation work realised during the year. The total fair value of buildings in other locations also increased by US\$1.5 million as compared to 2016 as shown in Note 13 to the Financial Statements.

Liabilities

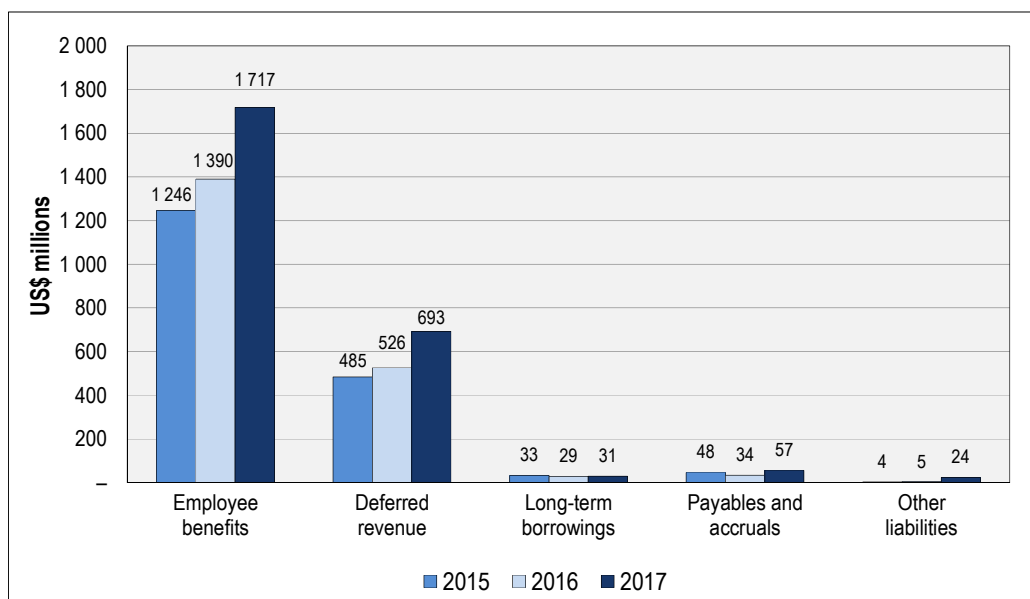
27. Liabilities as at 31 December 2017 totalled US\$2,521.5 million (US\$1,984.1 million as at 31 December 2016) as follows:

Figure 7. Liabilities (US\$ millions)



28. Figure 8 below provides a three-year comparison by liability category:

Figure 8. Liabilities, three-year comparison



Employee benefits

29. The most significant liabilities were the future employee benefits accrued by staff members and retirees. These represented 68.1 per cent of the ILO's total liabilities as at 31 December 2017.

30. The ASHI liability at US\$1,633.9 million, represents 95.1 per cent of the total employee benefits' liability and refers to the estimated cost of the employer's share of future health-care premia in respect of all current retirees and all active staff members with projected eligibility for ASHI. It is a point-in-time estimate calculated by an independent actuary taking into consideration the current discount rates, trends in health-care costs, mortality rates, the demographic make-up of the insured population, inflation and other assumptions. It is based on an approach developed by the actuarial profession and endorsed by accounting standard setters as being the most accurate method for projecting the amount of the Organization's future obligation.

31. The ASHI liability increased by US\$326.6 million in 2017, primarily due to the result of actuarial losses as detailed below:

Actuarial (gains)/losses (US\$ millions)	2017	2016
Loss due to change in discount rate	0.3	88.5
Loss due to change in medical trend rate	109.3	(1.0)
Loss due to change in mortality rates	156.6	6.0
Net loss due to change in other actuarial assumptions	21.1	17.7
Total actuarial losses recognized in net assets	287.3	111.2
Current service cost	49.5	40.5
Interest cost	17.7	19.6
Net benefits paid	(27.9)	(23.2)
Net ASHI expense recognized in the statement of financial performance	39.3	36.9
Total increase in ASHI liability	326.6	148.1

32. The key assumptions utilized by the actuary to calculate the ASHI liability are financial, including the discount rate and medical trend rate, and demographic, including the estimated lifespan of the participants (mortality rate). The decline in the global interest rates from 2009 to 2016 had a significant effect on the discount rate during this period, however, in 2017 the discount rate remained steady other than a small increase in the euro rate which caused a minor increase on the ITC liability.

33. In order to improve the comparability of the ASHI liability information in the financial statements of UN system organizations, a harmonized approach was adopted to the calculation of actuarial assumptions. This impacted on the medical trend rate to bring it into line with the rate used by other organizations and to more accurately reflect the increases in health care costs in Geneva. This resulted in an increase of US\$109.3 million in the total liability. In addition, the mortality rates, reflecting life expectancy, were modified by the UNJSPF Committee of Actuaries resulting in a further increase in the liability of \$156.6 million. Other assumptions related to the inflation rate for UNJSPF pensions and staff turnover were also harmonized resulting in an overall net increase of the ASHI liability during 2017 of US\$326.6 million.

34. The ASHI liability is currently considered as unfunded. However, an amount of US\$64.2 million is available in a SHIF Guarantee Fund to cover future short-term liabilities of SHIF together with an amount of US\$6.1 million accumulated in respect of

the staff of development cooperation projects. As previously, the ILO fulfils its immediate obligations in respect of the financing of health insurance for former officials from the regular budget, on a pay-as-you-go basis. Member States have preferred to maintain a pay-as-you-go basis to meet this liability rather than to include a provision in the Programme and Budget to accumulate a reserve aimed at limiting the growth in the ILO's ASHI liability.

Regular budget

35. The International Labour Conference, at its 104th Session (June 2015), approved an expenditure budget for the 2016–17 financial period amounting to US\$797.4 million and an income budget for the period for the same amount, which at the budget rate of exchange for the period of CHF0.95 to the US dollar, resulted in total assessed contributions of CHF757.5 million.

36. The overall budgetary results for the second 12 months of the 2016–17 financial period and for the biennium are summarized in Statement V-A with the details of contributions paid by member States shown in Note 31 to the Financial Statements.

37. The table below shows the expenditure and budget utilization percentages for the current and previous bienniums:

Variance analysis by strategic outcome for 2014–17 (in US\$ thousands)

	2014–15 Budget	2014–15 Actual	2014–15 Delivery	2016–17 Budget	2016–17 Actual	2016–17 Delivery
Part I – Ordinary budget						
A. Policy-making organs	82 469	74 351	90.2%	53 817	51 562	95.8%
B. Policy outcomes	612 292	605 660	98.9%	634 052	632 191	99.7%
C. Management services	61 995	61 929	99.9%	66 377	66 377	100.0%
D. Other budgetary provisions	46 802	44 299	94.7%	45 338	42 393	93.5%
Adjustment for staff turnover	(6 599)	–	0.0%	(6 523)	–	0.0%
Total Part I	796 959	786 239	98.7%	793 061	792 523	99.9%
Part II – Unforeseen expenditure	875	–	0.0%	875	–	0.0%
Part IV – Institutional investments and extraordinary items	3 426	3 426	100.0%	3 454	3 454	100.0%
Total Parts I, II and IV	801 260	789 665	98.5%	797 390	795 977	99.8%

38. The budgetary expenditure for the 2016–17 biennium is slightly higher than that of the 2014–15 biennium, with a budgetary delivery rate of 99.8 per cent for 2016–17 as compared to 98.5 per cent for 2014–15. The higher delivery rate in 2016–17 compared to 2014–15 results in part from more active budget management processes implemented during the biennium. The net underspend of less than one-half of a per cent resulted principally from financial factors, with inflation rates not reaching the levels forecast when the budget was prepared some three years earlier. These savings, realized across all budget items, were partially reinvested to finance activities relating to the reform of the

Organization as well as other programmatic activities approved by the Governing Body. The Office did not need to draw on the provision for Unforeseen expenditure contained in Part II of the budget. The difference between budget and actual amounts for Policy-making organs is also the result of cost-efficiency measures in holding sessions of the Conference, Governing Body and Regional Meetings, while savings under Other budgetary provisions largely relate to an overprovision in the budget for the contribution towards retired officials health insurance costs. Results-based delivery information is reported biennially to the Governing Body and Conference through the ILO Programme Implementation Report at the conclusion of each biennium.

39. Statement V-A shows an excess of income over expenditure for the period at the budgetary rate of exchange amounting to US\$1.4 million. Following revaluations, adjustments in respect of arrears of contributions received and reimbursement of the Working Capital Fund, the net deficit at the end of the biennium was US\$70.2 million (CHF68.6 million). The deficit was financed in accordance with the Financial Regulations by the use of the entire balance in the Working Capital Fund and internal borrowing from other funds. Arrears of contributions of US\$59.5 million (CHF58.2 million) received in 2018 have been used to reimburse fully the internal borrowings of US\$34.3 million (CHF33.6 million) and partially the Working Capital Fund of US\$25.1 million (CHF24.6 million).

40. The differences between the net results determined on an IPSAS (full accrual) basis and those determined in accordance with the Financial Regulations are summarized in the following table and explained in more detail in Note 24 to the Financial Statements.

(US\$ thousands)	Regular budget	CINTERFOR	ITC	Subsidiary funds	Total
Net result per budgetary basis (Statement V)	(70 166)	278	799	–	(69 089)
IPSAS adjustments	59 885	(233)	(2 559)	–	57 093
Subsidiary funds	–	–	–	(17 234)	(17 234)
Net result per IPSAS basis	(10 281)	45	(1 760)	(17 234)	(29 230)

Other funds

41. As at 31 December 2017, the net assets of other funds managed by the ILO (ITC and CINTERFOR) amounted to US\$19.1 million.

42. The overall results of those funds with budgets approved by the Governing Body or the Board of the ITC for 2017 are summarized in Statements V-B and V-C and information on the net assets of each fund is included in the appendix.

43. Expenditure recognized during 2017 on extra-budgetary development cooperation activities totalled US\$225.7 million (US\$199.1 million in 2016). Under IPSAS, revenue is recognized and matched by the Office when earned through project delivery; hence the extra-budgetary development cooperation delivery rate is consistently 100 per cent in financial terms. The results show that the delivery measured by expenditure was higher by 13.1 per cent in 2017 as compared to 2016.

44. The ILO Staff Health Insurance Fund (SHIF) is a self-insured health insurance programme for active staff, retirees and dependents, which is maintained by the ILO. This programme is financed through contributions from insured persons and the ILO. The Statement of Financial Performance reports the contributions received from insured persons as revenue and reports as expense the amount reimbursed for medical claims under

the programme. In 2017, the SHIF had a technical deficit of US\$666,257. There was a small net operating surplus of US\$276,605 due to the decrease of the liability for unsettled claims. The net result, after net investment losses of US\$1,915,113 and exchange and revaluation gains of US\$4,441,974 was a surplus of US\$2,803,466. The net assets of the SHIF as at 31 December 2017 were US\$64.2 million (US\$61.4 million in 2016). As reported in 2016, the distribution of these net assets has been disputed by the International Telecommunications Union which previously participated in the SHIF, and is now subject to arbitral proceedings.

2. Statement of Internal Control for the year ended 31 December 2017

Scope of responsibility

1. As Director-General of the International Labour Office (ILO), in accordance with the responsibility assigned to me by the ILO Constitution, the Governing Body and the Financial Regulations, I have the responsibility and accountability for a sound system of internal control. In particular, Article 30 of the Financial Regulations requires that I establish and maintain internal controls and to ensure:

- ❑ effective financial administration and the exercise of economy; and
- ❑ effective custody of the physical assets of the Organization.

The purpose of the system of internal control

2. Internal control is a process, effected by the ILO's Governing Body, the Director-General, senior management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives, compliance with regulations and policies, and reliable financial reporting. The implementation of internal control is effected through the policies, procedures and operational processes applied at all levels, designed to identify and manage – rather than eliminate – the risks to these objectives.

3. My present statement applies for the year ended 31 December 2017, and considers any relevant events up to the date of the approval of the Organization's consolidated 2017 financial statements.

The ILO's operating environment

4. The ILO operates in a global environment with a physical presence in over 140 locations. The diverse operating locations, the unique tripartite structure, and the engagement with multiple funding and delivery partners all expose the ILO to potential risks and opportunities. These risks can relate to the physical security of officials and of Office property, to the successful delivery of outcomes, as well as the challenges of maintaining high standards of internal control.

The ILO's risk management and internal control frameworks

5. The ILO's Enterprise Risk Management Framework, first adopted in 2015 and updated in January 2018, is based on the following key elements:

- ❑ A six-step approach, comprising (i) establishing the context; (ii) identifying risk; (iii) scoring risks for likelihood and impact; (iv) responding to risk cost-effectively; (v) monitoring risks and risk practices; and (vi) reporting to senior managers and external stakeholders information on key risk exposures and on the efficiency and effectiveness of ILO's risk management processes.
- ❑ A dedicated Risk Management Committee, which oversees and recommends actions on ILO's exposure to major risks, as recorded in the Strategic Risk Register, and on the efficiency and effectiveness of risk management processes.
- ❑ Mandatory risk assessments in ILO's Departments and Offices, and in its main processes (including outcome management & development cooperation projects).
- ❑ Building organizational capacity to manage risk well and efficiently.

6. In 2017, the ILO also developed its Internal Control Framework which was formally adopted in January 2018. The key elements of the internal Control Framework include:

- ❑ Mapping of the ILO's existing rules, policies and procedures, as well as compliance monitoring tools, against a set of principles based on acknowledged best practice.
- ❑ "Three Lines of Defense" for internal controls, in line with the Reference Model adopted by the United Nations High-level Committee on Management (HLCM), providing clarification on the roles and responsibilities in the implementation of internal controls.
- ❑ Emphasis on continuous improvement, identifying the necessary mechanisms for ongoing assessment and regular reporting of the overall effectiveness of internal control to ensure an appropriate level of assurance.

Review of internal control effectiveness

7. As specified in the ILO Internal Control Framework, my review of the effectiveness of the system of internal controls is mainly informed by:

- ❑ **Internal letters of representation**, signed by my deputy directors-general, regional directors, departmental directors at headquarters, external office directors and Chief Technical Advisors for development cooperation programmes and projects, providing a self-assessment of the accomplishment of their responsibilities for maintaining effective internal control and risk management on a day-to-day basis.
- ❑ **Independent audit and evaluation reports**, issued by the Chief Internal Auditor (including investigation reports), the External Auditor, the Evaluation Office, the Ethics Officer and, as relevant, the Joint Inspection Unit.
- ❑ **Governing Body observations and guidance** on internal control matters, including those contained in the reports of the Independent Oversight Advisory Committee.

Significant internal control matters arising during the year

8. The 2017 internal letters of representation (ILR) received from directors and other managers provided significant assurance on the effective implementation of ILO's internal controls during 2017. Although no major control weaknesses were identified from these disclosures, a number of areas have been noted where policies and procedures are in place but their operational application may require further improvements. The managers' disclosures are consistent with the observations made in audit and evaluation reports as well as with guidance provided by the Governing Body, for which actions have been or are being taken.

- ❑ **Risk management tools and practices to be strengthened.** The 2017 ILR disclosures identified the need to continue to build organizational capacity to manage risk methodically, effectively and efficiently. To this end, the Office has strengthened the governance of risk, developed a generic risk management model and terminology to be applied across all processes, and prepared a new risk management manual and a catalogue of risks. An on-line training package, a risk management IT platform and further process rationalisation are under development and will be released in 2018.
- ❑ **Results-based management (RBM) approach, including for development cooperation (DC) projects, to be harmonized.** In 2017, both the External Auditor and the Evaluation Office have highlighted the need to review the ILO's RBM approach and its monitoring and reporting systems; a view also expressed by the Governing Body. An RBM task force was formally established in January 2018, seeking to identify short-, medium- and long-term improvements for an integrated and coordinated approach to address all RBM-related issues as applicable to ILO work and context.
- ❑ **Performance management compliance.** The 2017 ILR disclosures highlighted some delays reported by managers on the performance management compliance levels under their responsibilities, despite the overall improvement compared to those of 2016. As one of the outcomes of the ongoing Business Process Review conducted in 2017, a streamlined performance management framework with shorter appraisal cycles, harmonized processes and simpler forms has been launched for the 2018 calendar year, which will increase focus on delivery, enable an agile response to change and assist both staff and managers in the timely completion of performance appraisals.
- ❑ **Country-level financial operations.** In 2017, the ILO issued a Finance Manual, which included detailed and specific instructions on all aspects of financial operations, in particular those of external offices. In addition, with the continued rollout to external offices of the Integrated Resource Information System (IRIS), oversight and support by headquarters and regional offices has been strengthened. A number of the recurring issues related to financial operations at country-level will be further addressed in light of these policy and system enhancements made.

Conclusion

9. Internal controls no matter how well designed have inherent limitations, including the possibility of pre-meditated circumvention and therefore can provide only reasonable but not absolute assurance. The effectiveness of internal controls may vary over time due

to changes of conditions beyond the Office's control. I am accordingly committed to the continuous development of the system of internal control so as to address control issues in a timely manner.

10. Based on the above I conclude that to the best of my knowledge and information, the ILO has an effective system of internal control and there are no material weaknesses during the year ended 31 December 2017 and up to the date of approval of the 2017 consolidated financial statements.

(Signed) Guy Ryder
Director-General
Geneva, 18 April 2018

3. Approval of the consolidated financial statements for the year ended 31 December 2017

The consolidated financial statements are the responsibility of and have been prepared by management in accordance with the International Public Sector Accounting Standards and comply with the Financial Regulations of the International Labour Organization. They include certain amounts that are based on management's best estimates and judgements.

The financial governance of the Office includes the review of financial systems and internal controls by the ILO's Office of Internal Audit and Oversight, the External Auditor, and by the Governing Body and its subsidiary body, the Independent Oversight Advisory Committee. The External Auditor also provides an opinion on the Financial Statements which is provided in the following section.

In accordance with Chapter VII of the Financial Regulations and Financial Rule 1.40, the consolidated financial statements numbered I to V and the accompanying notes are hereby approved and submitted to the Governing Body of the International Labour Office.

(Signed) Greg Johnson
Treasurer and Financial Comptroller

30 March 2018

(Signed) Guy Ryder
Director-General

30 March 2018

4. Audit opinion of the External Auditor to the Governing Body of the International Labour Office



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

To the Governing Body of the International Labour Office

Opinion

We have audited the consolidated financial statements of the International Labour Organization (ILO) and its controlled entity, the International Training Centre (ITC), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of financial performance, consolidated statement of changes in net assets, consolidated statement of cash flow, and statements of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the ILO and its controlled entity, the ITC, as at 31 December 2017, and their financial performance, changes in net assets, cash flow, and comparison of budget and actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the ILO and its controlled entity, the ITC, in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the **ILO financial report and audited consolidated financial statements for the year ended 31 December 2017 and report of the external auditor**, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ILO and its controlled entity, the ITC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the ILO and its controlled entity, the ITC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ILO and its controlled entity, the ITC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ILO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ILO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Further, in our opinion, the transactions of the ILO and its controlled entity, the ITC, that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the ILO and of the ITC.

In accordance with Paragraph 6 of the Appendix to the Financial Regulations of the ILO, we have also issued a long-form report on our audit of the ILO's consolidated financial statements to the Governing Body.

(Signed) **Michael G. Aguinaldo**
Chairperson, Commission on Audit
Republic of the Philippines
External Auditor

Quezon City, Philippines
20 April 2018

5. Consolidated financial statements for the year ended 31 December 2017

International Labour Organization

Statement I

Consolidated statement of financial position as at 31 December 2017 (US\$ millions)

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	4	341.9	382.8
Contributions receivable – Assessed	5	135.4	65.2
Contributions receivable – Voluntary	6	310.3	222.0
Derivative assets	7	4.0	19.2
Investments	8	140.0	122.1
Other receivables	9	9.6	9.7
Inventories	10	4.4	3.9
Other current assets	11	18.1	14.6
		<u>963.7</u>	<u>839.5</u>
Non-current assets			
Contributions receivable – Assessed	5	10.4	10.6
Contributions receivable – Voluntary	6	75.7	54.0
Derivative assets	7	3.4	–
Investments	8	235.3	225.8
Property and equipment	13	561.9	585.1
Intangible assets	14	2.5	2.1
		<u>889.2</u>	<u>877.6</u>
Total assets		<u>1 852.9</u>	<u>1 717.1</u>
Liabilities			
Current liabilities			
Payables and accruals		56.8	34.1
Deferred revenue	15	617.1	471.8
Employee benefits	16	55.7	50.1
Current portion of long-term borrowings	17	3.8	3.6
Due to member States	18	0.2	0.4
Other current liabilities	19	9.8	3.8
		<u>743.4</u>	<u>563.8</u>
Non-current liabilities			
Deferred revenue	15	75.7	54.0
Employee benefits	16	1 661.6	1 340.1
Long-term borrowings	17	26.9	25.7
Due to member States	18	13.9	0.5
		<u>1 778.1</u>	<u>1 420.3</u>
Total liabilities		<u>2 521.5</u>	<u>1 984.1</u>
Net assets			
Reserves	20	147.0	205.1
Accumulated balances	20	(815.6)	(472.1)
Total net assets		<u>(668.6)</u>	<u>(267.0)</u>

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement II

Consolidated statement of financial performance for the year ended 31 December 2017 (US\$ millions)

	Note	2017	2016
Revenue			
Assessed contributions	26, 31	360.1	382.9
Voluntary contributions	26	246.7	220.6
ITC training services	26	14.4	12.6
Staff/retiree benefit contributions		21.6	20.0
Sales and royalties		12.2	10.3
Gain on sale of investment property		–	0.1
Investment income		7.7	5.9
Other income		0.8	2.6
Total revenue		663.5	655.0
Expenses			
Salaries, employee benefits and other personnel costs	21	416.1	406.5
Travel	21	25.7	26.5
Subcontracts	21	125.7	89.5
General operating expenses	21	43.3	41.1
Supplies, materials and small equipment	21	10.1	8.0
Depreciation and amortization	21	8.2	4.9
Seminars, workshops and other training	21	40.1	39.1
Staff development	21	5.7	3.4
Health benefits	21	48.5	43.8
Contributions and grants in aid	21	8.3	6.2
Finance expenses	21	2.1	2.4
Other expenses	21	2.2	3.5
Total expenses		736.0	674.9
Foreign exchange gains/(losses)		43.3	(1.9)
Net surplus (deficit)		(29.2)	(21.8)

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement III

Consolidated statement of changes in net assets for the year ended 31 December 2017 (US\$ millions)

	Note	Reserves	Accumulated balances	Total net assets
Balance as at 31 December 2015		189.4	(397.9)	(208.5)
Surplus (deficit) for the year 2016		(0.8)	(21.0)	(21.8)
Repayment of internal borrowing for financing of regular budget deficit		16.5	(16.5)	–
Change of derivatives		–	(5.5)	(5.5)
Change of revaluation surplus of land and buildings		–	78.7	78.7
Actuarial gain (loss) of employee benefit liabilities		–	(108.9)	(108.9)
Translation difference from consolidation of ITC		–	(1.0)	(1.0)
Total 2016 movement		15.7	(74.2)	(58.5)
Balance as at 31 December 2016	20	205.1	(472.1)	(267.0)
Surplus (deficit) for the year 2017		12.1	(41.3)	(29.2)
Internal borrowing for financing of regular budget deficit		(70.2)	70.2	–
Change of derivatives		–	(10.0)	(10.0)
Change of revaluation surplus of land and buildings		–	(66.9)	(66.9)
Actuarial gain (loss) of employee benefit liabilities		–	(284.6)	(284.6)
Transfer to liabilities due to member States of period 2017		–	(13.4)	(13.4)
Translation difference from consolidation of ITC		–	2.5	2.5
Total 2017 movement		(58.1)	(343.5)	(401.6)
Balance as at 31 December 2017	20	147.0	(815.6)	(668.6)

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement IV

Consolidated statement of cash flow for the year ended 31 December 2017 (US\$ millions)

	Note	2017	2016
Cash flows from operating activities			
Surplus (deficit) for the year		(29.2)	(21.8)
Non-cash movements:			
Depreciation and amortization		8.2	4.9
(Increase) decrease in contributions receivable – Assessed		(70.0)	23.3
(Increase) decrease in contributions receivable – Voluntary		(110.0)	(8.8)
(Increase) decrease in derivative instruments		1.7	(0.7)
(Increase) decrease in other receivables		0.1	2.5
(Increase) decrease in inventories		(0.5)	1.0
(Increase) decrease in other assets		(3.5)	(0.6)
Increase (decrease) in payables and accruals		22.7	(13.5)
Increase (decrease) in deferred revenue		167.0	41.3
Increase (decrease) in employee benefits		42.5	35.1
Increase (decrease) in due to member States		13.2	(0.1)
Increase (decrease) in other liabilities		6.0	0.2
(Gain) loss in sale of investment property		–	(0.1)
Increase (decrease) in investment portfolios		(9.8)	0.5
Increase (decrease) in borrowings		2.1	(0.2)
Transfer to liabilities due to member States		(13.4)	–
Effect of exchange rates on cash and cash equivalents		(15.4)	9.3
Net cash flows from operating activities		11.7	72.3
Cash flows from investing activities			
Proceed from sale of investments	8	202.4	177.5
Proceed from sale of investment property	12	–	28.4
Purchase of investments	8	(220.0)	(182.1)
Additions of property and equipment	13	(49.9)	(35.2)
Additions of intangible assets	14	(1.1)	(0.4)
Net cash flows from investing activities		(68.6)	(11.8)
Cash flows from financing activities			
Repayment of borrowings	17	(3.8)	(3.8)
Proceeds from new borrowing	17	3.1	–
Net cash flows from financing activities		(0.7)	(3.8)
Effect of exchange rates on cash and cash equivalents		16.7	(9.9)
Net increase (decrease) in cash and cash equivalents		(40.9)	46.8
Cash and cash equivalents, beginning of period	4	382.8	336.0
Cash and cash equivalents, end of period	4	341.9	382.8

US\$2.6 million of interest received is included in the net cash flows from operating activities (2016 = US\$1.1 million).

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement V-A

Statement of comparison of budget and actual amounts ¹

Regular budget for the year ended 31 December 2017 (US\$ thousands)

	2017 original budget ²	2017 final budget ³	2017 actual	2017 difference ⁴	2016–17 original and final budget	2016–17 actual ⁵	2016–17 difference ⁴
Revenue							
Assessed contributions	398 695	398 695	398 695	–	797 390	797 400	10
Total revenue	398 695	398 695	398 695	–	797 390	797 400	10
Expenses							
Part I – Ordinary budget							
A. Policy-making organs	27 378	29 013	26 758	(2 255)	53 817	51 562	(2 255)
B. Policy outcomes	317 415	335 124	333 263	(1 861)	634 052	632 191	(1 861)
C. Management services	31 715	34 443	34 443	0	66 377	66 377	0
D. Other budgetary provisions	23 284	24 544	21 599	(2 945)	45 338	42 393	(2 945)
Adjustment for staff turnover ⁶	(3 261)	(6 523)	–	6 523	(6 523)	–	6 523
Total Part I	396 531	416 601	416 063	(538)	793 061	792 523	(538)
Part II – Unforeseen expenditure	437	875	–	(875)	875	–	(875)
Part IV – Institutional investments and extraordinary items	1 727	–	–	–	3 454	3 454	–
Total expenses (Parts I, II and IV)	398 695	417 476	416 063	(1 413)	797 390	795 977	(1 413)
Surplus at budgetary rate of exchange						1 423	
Revaluation of the budgetary surplus						(41)	
Surplus at UN operational rate of exchange						1 382	
Deficit resulting from the receipt of contributions in an amount lower than approved regular budget						(55 133)	
Reimbursement of 2014–15 deficit financing ⁷						(16 415)	
Net surplus (deficit) ⁸						(70 166)	

¹ Budget and actual information calculated at budgetary rate of exchange of US\$1 = CHF0.95.² Original budget represents one half of the biennial budget adopted by the ILC.³ Final budget represents one half of the approved budget adopted by the ILC plus the balance remaining unspent at the end of the first year of the biennium and includes the transfer between budget items approved by the Governing Body (GB.332/PFA/5).⁴ Significant differences between budget and actual are explained in the accompanying financial report on the 2017 accounts.⁵ Assessed after the adoption of the budget on Cook Islands (2015 and 2016 contribution) and Tonga (2016 contribution).⁶ Staff turnover is an undistributed adjustment to reduce the overall level of the budget in recognition of inevitable delays in recruitment. Managed underspending against appropriation lines offsets this undistributed adjustment.⁷ As of 31 December 2015, in accordance with article 21.1(a) of the Financial Regulations, the deficit of CHF16.1 (US\$16.4 million) was covered by the Working Capital Fund. In accordance with article 21.2(a) of the Financial Regulations arrears of contributions received in 2016 were used to reimburse the Working Capital Fund.⁸ In accordance with article 21.1(a) of the Financial Regulations, the Working Capital Fund was drawn upon to finance budgetary expenditure pending receipt of contributions. The nominal balance of this Fund standing, at CHF35.0 million (US\$35.8 million) was, as a consequence, fully exhausted. The Director-General had recourse to internal borrowing for the balance of the shortfall amounting to US\$34.4 million (CHF33.6 million). In accordance with article 21.2(a) of the Financial Regulations, arrears of contributions received in 2018 will be used to reimburse the Working Capital Fund and internal borrowings.

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement V-B

Statement of comparison of budget and actual amounts

Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR)
for the year ended 31 December 2017 (US\$ thousands)

	2017 original budget ¹	2017 final budget ²	2017 actual	2017 difference	2016–17 original and final budget	2016–17 actual	2016–17 difference
Accumulated balance, beginning	380	1 124	1 124	–	403	913	510
Revenue							
Contribution from ILO regular budget	1 192	1 192	1 192	–	2 385	2 385	–
Contribution from host country and other countries in the region	350	408	505	97	700	797	97
Other contributions	125	82	27	(55)	250	195	(55)
Sales of publications and services	15	30	–	(30)	30	–	(30)
Miscellaneous income	5	12	–	(12)	10	(1)	(11)
Total revenue	1 687	1 724	1 724	–	3 375	3 376	1
Expenses							
Expenditure	1 710	1 980	1 658	(322)	3 420	3 098	(322)
Total expenses	1 710	1 980	1 658	(322)	3 420	3 098	(322)
Net surplus (deficit)	(23)	(256)	66	322	(45)	278	323
Accumulated balance, ending	357	868	1 190	322	357	1 190	833

¹ The original budget represents one half of the biennial budget adopted by the ILO Governing Body.

² Final budget represents one half of the approved budget adopted by the ILO Governing Body plus the balance remaining unspent at the end of the first year of the biennium.

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement V-C

Statement of comparison of budget and actual amounts

International Training Centre of the ILO (ITC) for the year ended 31 December 2017

	2017 Original and final budget ¹	2017 Actual	2017 Variance ²	2016–17 Original and final budget	2016–17 Actual	2016–17 Variance
(in € thousands)						
Revenue						
Voluntary contributions	11 682	12 039	357	23 365	24 688	1 323
Earned income	29 728	25 478	(4 250)	55 200	50 306	(4 894)
Use of surplus	814	822	8	1 623	1 745	122
Total budget revenue	42 224	38 339	(3 885)	80 188	76 739	(3 449)
Expenditure						
Fixed expenditure	22 625	22 262	(363)	44 380	44 221	(159)
Variable expenditure	18 812	15 352	(3 460)	35 208	30 677	(4 531)
Contingency	600	–	(600)	600	–	(600)
Total expenditure	42 037	37 614	(4 423)	80 188	74 898	(5 290)
Budget surplus ³	187	725	538	–	1 841	1 841
Other items						
Doubtful accounts	–	112	112	–	61	61
Exchange gain (loss) and revaluation, net	–	(125)	(125)	–	(138)	(138)
Total other items	–	(13)	(13)	–	(77)	(77)
Net budget surplus ³	187	712	525	–	1 764	1 764
(in US\$ thousands)						
Net budget surplus ⁴	210	799	589	–	1 966	1 966

¹ Original budget represents 50 per cent of approved budget for voluntary contributions, other revenue, past surpluses, 51 per cent of the approved budget for fixed expenditures, project staff variable expenditure as well as 54 per cent of the approved budget for training and publications revenue and total variable expenditure excluding project staff. It also includes 100 per cent of the approved budget for the contingency (as this is included in the final biennium approved budget).

² Budget variances are explained in the accompanying financial report on the 2017 accounts.

³ As per ITC's Financial Regulations, article 7(4).

⁴ The revenue and expenditure of the ITC are consolidated using an average rate of US\$1 = €0.8908 for the reporting period (US\$1 = €0.901 for 2016).

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2017

	<i>Page</i>
Note 1 – Objectives and activities	32
Note 2 – Accounting policies	33
Note 3 – New accounting standards.....	41
Note 4 – Cash and cash equivalents.....	42
Note 5 – Contributions receivable – Assessed contributions	42
Note 6 – Contributions receivable – Voluntary contributions.....	43
Note 7 – Derivative assets and liabilities	43
Note 8 – Investments	44
Note 9 – Other receivables	45
Note 10 – Inventories	46
Note 11 – Other current assets	46
Note 12 – Investment property	46
Note 13 – Property and equipment.....	47
Note 14 – Intangible assets.....	49
Note 15 – Deferred revenue.....	49
Note 16 – Employee benefits	50
Note 17 – Borrowings.....	54
Note 18 – Due to member States	55
Note 19 – Other current liabilities	57
Note 20 – Reserves and accumulated balances	57
Note 21 – Expenses.....	59
Note 22 – Financial instruments.....	60
Note 23 – Operating leases.....	63
Note 24 – Statement of comparison of budget and actual amounts.....	63
Note 25 – Related party disclosures.....	65
Note 26 – Revenue from non-exchange transactions.....	66
Note 27 – Contingent assets and liabilities and commitments.....	66
Note 28 – Contributions in-kind	67
Note 29 – Segment reporting	67
Note 30 – Assessed contributions – Summary.....	70
Note 31 – Assessed contributions – Detailed information.....	71

Note 1 – Objectives and activities

1. The International Labour Organization (ILO) was founded in 1919 to promote social justice and internationally recognized human and labour rights. In 1947, the ILO became the first specialized agency of the United Nations (UN) system based upon an agreement between the Organization and the UN adopted in accordance with Article 57 of the United Nations Charter.
2. The ILO formulates international labour standards in the form of Conventions and Recommendations. These include fundamental standards on freedom of association and collective bargaining, abolition of forced labour, equality of opportunity and treatment, and the elimination of child labour. Other standards regulate conditions across the entire spectrum of work-related issues. The ILO provides advisory services and technical assistance, primarily in the fields of: child labour; employment policy; training and skills development and vocational rehabilitation; enterprise development; social security; industrial relations; and labour statistics. It promotes the development of independent employers' and workers' organizations, and provides training and advisory services to those organizations. It serves as a centre of information on the world of work, and to this end conducts research, gathers and analyses statistics, organizes meetings, and publishes a range of information and training materials.
3. The ILO was established pursuant to its Constitution originally adopted in 1919 and is governed by the International Labour Conference (ILC) which consists of representatives of all the member States, and by the Governing Body elected by the ILC. The ILC of representatives of the Members is convened annually. Within the UN system, the ILO has a unique tripartite structure with workers and employers participating as equal partners with governments in the work of its governing organs.
4. The ILO's headquarters is in Geneva, Switzerland, and it maintains external offices in over 50 countries. In accordance with its headquarters agreement with the Government of Switzerland and the United Nations Convention on Privileges and Immunities for Specialized Agencies (1947 Convention) the Organization is exempt from most taxes and customs duties imposed by its member States.
5. The financial statements consolidate all of the operations under the direct authority of the Director-General including the regular budget, reserves, extra-budgetary funded activities, the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR) and the International Training Centre of the ILO (ITC) along with the Administrative Tribunal of the ILO and the ILO Staff Health Insurance Fund (SHIF).
6. Controlled entity: The ITC was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is headquartered in Turin, Italy. The Centre provides training and related services to UN agencies, governments and non-governmental organizations designed to develop human resources and improve institutional capabilities. The Centre is principally financed from contributions from the ILO regular budget and development cooperation projects, from the Government of Italy and from charges for training services provided. The Centre produces separate financial statements at the same reporting date as the ILO.

Note 2 – Accounting policies

Basis of preparation and presentation

7. The consolidated financial statements of the ILO have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and comply with the ILO Financial Regulations.
8. The consolidated financial statements are prepared on an accrual basis.
9. The transitional provisions on Property and equipment (IPSAS-17) have been applied in the initial recognition of equipment purchased before 1 January 2012. Equipment acquired prior to 1 January 2012 was expensed at the date of purchase and its value has not been recognized as an asset. The transitional period ended on 31 December 2016.

Financial period

10. The Organization's financial period for budgetary purposes is a biennium consisting of two consecutive calendar years. The consolidated financial statements are prepared annually.

Financial statement presentation

11. The functional and presentation currency of the Organization is the United States (US) dollar. The consolidated financial statements are expressed in millions of US dollars unless otherwise indicated.

Measurement uncertainty

12. The preparation of consolidated financial statements in accordance with IPSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the year. Investments and derivatives, property, and employee benefit liabilities are the most significant items where estimates are used. Actual results could differ significantly from these estimates.

Significant accounting policies

Borrowings

13. Borrowings are classified as financial liabilities initially measured at fair value and subsequently measured at amortized cost. Interest and other expenses incurred in connection with the borrowing of funds to directly finance the acquisition or construction of assets are capitalized as part of the cost of the asset.

Cash and cash equivalents

14. Cash comprises cash on hand and demand deposits; cash equivalents are short-term, highly liquid investments with maturity less than 90 days from the date of acquisition and are readily convertible to known amounts of cash.

Consolidation

15. The accounts of the ITC have been consolidated into the consolidated financial statements of the ILO.
16. The functional currency of the ITC is the euro. For the purposes of consolidation, the balances of the ITC assets, liabilities and net assets are converted from the euro to the US dollar at the UN operational rate of exchange as at the reporting date. Revenues and

expenses are converted from the euro to the US dollar using the average UN operational rate for the reporting period. Gains and losses on exchange resulting from the consolidation of ITC euro-based accounts into the ILO's US dollar-based consolidated financial statements are recognized in net assets.

Contingent asset

17. Contingent assets are probable assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Organization. They are disclosed in the notes to the consolidated financial statements.

Derivatives

18. The ILO uses derivative financial instruments, such as forward purchase agreements to hedge its foreign currency risks. These financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value at the end of the financial period. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are recognized on the consolidated statement of financial performance, except for the effective portion of cash flow hedges (see below), which is recognized in net assets and later reclassified to the consolidated statement of financial performance when the hedge item affects profit or loss.

19. The ILO designates its regular budget forward purchase agreements as a cash flow hedge and applies hedge accounting as below:

- ❑ The effective portion of the gain or loss on the hedging instrument (forward purchase agreement) is recognized in net assets, while any ineffective portion is recognized immediately in the consolidated statement of financial performance as exchange gain (loss) and revaluation, net. The effectiveness of the hedge is tested prospectively and retrospectively, whereby the ratio of the change in the fair value of the hedged cash flows is attributed to the change in the spot US dollar to Swiss franc (CHF) rate. The testing is conducted at the inception of the hedge and at each reporting date.
- ❑ Amounts recognized in net assets are transferred to the consolidated statement of financial performance when the forecast transaction (recognition of assessed contribution) occurs.
- ❑ If the hedging instrument is exercised, or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized remains in net assets until the forecast transaction occurs.
- ❑ Hedge accounting is also discontinued when the forecasted transaction is no longer expected to occur in which case any cumulative gain or loss that was recognized in net assets is immediately transferred to the consolidated statement of financial performance as exchange gain (loss) and revaluation.

Due to member States

20. A liability is established to reflect the amounts payable to member States for undistributed net surpluses, undistributed net premia at the end of each biennium, and the incentive fund at the end of each reporting period:

- ❑ At the end of the first year of each biennium a calculation is made of the amount that would have been due to member States, and this amount is reflected as a component of accumulated fund balance.
- ❑ At the end of the second year of each biennium the amount is recognized as a liability to member States in accordance with the provisions of the Financial Regulations.

Employee benefits

21. The ILO recognizes the following categories of employee benefits:

Post-employment benefits

22. Post-employment benefits are employee benefits that are payable after the completion of employment. The ILO is a member organization participating in the United Nations Joint Staff Pension Fund (the UNJSPF or the Fund), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified in article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

23. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. The ILO and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify the ILO's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the ILO has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25, Employee Benefits. The ILO's contributions to the Fund during the financial period are recognized as expenses in the consolidated statement of financial performance.

24. The ILO's defined benefit plans comprise the after service health insurance (ASHI) plan and repatriation entitlements, which include repatriation grant and end-of-service benefits along with travel and shipping costs upon termination. The liability recognized for these plans is the present value of the defined benefit obligations at the reporting date. The ASHI liability and the repatriation entitlements are calculated by an independent actuary using the Projected Unit Credit Method.

25. Interest cost and current service costs are recognized on the consolidated statement of financial performance as a component of staff costs. Actuarial gains or losses arising from changes in actuarial assumptions or experience adjustments are directly recognized in net assets.

Short-term employee benefits

26. Short-term employee benefits comprise first-time employee benefits (for example moving costs, subsidies at the beginning of appointment), regular monthly benefits (for example salaries and allowances), compensated absences, other short-term benefits (for

example education grant and home leave). An expense is recognized when employees render service to the Organization and a liability is recognized for any entitlement that has not been settled at the reporting date. Short-term employee benefit liabilities are expected to be settled within 12 months of the reporting date. They are recognized as current liabilities and are measured at an undiscounted amount.

Other long-term employee benefits

27. Other long-term employee benefits are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees render the related services. Such benefits include the portion of the accumulated leave balances that is not expected to be settled within 12 months of the reporting date. They are recognized as non-current liabilities and measured at an undiscounted amount.

Foreign currency transactions

28. Transactions carried out during the financial period in currencies other than the US dollar are converted to US dollars using the UN operational rate of exchange in effect on the date of each transaction. These rates approximate market rates.

29. Balances of monetary assets and liabilities maintained in currencies other than the US dollar are converted to US dollars at the UN operational rate of exchange applicable at the reporting date, which approximates the market rate. Exchange differences arising on the settlement of monetary items and unrealized gains or losses from revaluation of monetary assets and liabilities are recognized on the consolidated statement of financial performance except for gains and losses on exchange arising on effective cash flow hedges at the reporting date which are recognized in net assets.

30. Balances of non-monetary assets and liabilities carried at historical cost are converted using the UN operational rate of exchange at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the UN operational rate at the date when the fair value is determined. Exchange gains or losses from the revaluation of property are recognized in net assets. Exchange gains or losses from the revaluation of investment property are recognized in the consolidated statement of financial performance as "Change in fair value of investment property".

31. Exchange gains and losses, except those on investment property that are disclosed separately, are presented on a net basis on the consolidated statement of financial performance as revenue if a gain or as an expense if a loss.

32. On the statement of comparison of budget and actual amounts for the regular budget (Statement V-A), revenue and expenses incurred in Swiss francs is reflected at a budgetary rate of exchange fixed by the ILC for the biennium.

Impairment

33. Cash-generating assets are those held for the purpose of generating a commercial return. Non-cash-generating assets including land, buildings, equipment, intangible assets and leasehold improvements are not held for future sale. Impairment reviews are undertaken for all assets at least annually to determine if there is any impairment in their value. Provisions are established to recognize impairment, if necessary.

Inventory

34. Publications held for free distribution are valued at the lower of cost and current replacement cost. Publications held for sale are valued at the lower of cost and net realizable value. If net realizable value is lower than cost, the difference is recognized as an expense on the consolidated statement of financial performance. The value of

publications is written off when they are considered damaged or after two years when they are considered obsolete and this is an expense on the consolidated statement of financial performance. The cost of publications is calculated using the weighted average cost. The cost of paper and other supplies used in the production process is calculated using the first-in, first-out method formula.

Intangible assets

35. Intangible assets are recognized at historical cost and amortized over their useful life of three to five years using the straight line method. Externally acquired software are recognized as intangible assets if their cost per user equalled or was greater than US\$5,000. Internally developed software are recognized as intangible assets if their cost equalled or was greater than US\$200,000 for the ILO and €40,000 for the ITC.

Investments

36. Investments are designated as financial assets at fair value through surplus or deficit and measured at fair value as at the reporting date. Realized and unrealized gains or losses arising from the change of market value of investments and revenue from interest and dividends are recognized in the consolidated statement of financial performance in the period in which they arise. Investments are classified as current or non-current assets according to the time horizon of the investment objectives. If the time horizon is less than or equal to one year, they are classified as current assets, and if it is more than one year, they are classified as non-current assets.

Investment property

37. Investment properties are initially recognized at cost and subsequently measured at fair value based upon market conditions at the reporting date.

38. Gains or losses arising from changes in the fair value of investment properties are recognized in the consolidated statement of financial performance in the period in which they arise.

39. Investment properties are derecognized either on disposal of or when they are permanently withdrawn from use and no future economic benefit or service potential is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of financial performance in the period of derecognition.

40. Transfers are made to (or from) investment property only when there is a change in use. If owner-occupied property becomes an investment property, such property is accounted for in accordance with the policy stated under property and equipment up to the date of change in use.

Leases

41. Lease agreements entered into for equipment or office premises are classified as operating leases unless they substantially transfer all of the risk and reward of ownership. Lease charges for operating leases are recognized on the consolidated statement of financial performance as general operating expenses, based on the terms of the agreements for the period concerned so as to reflect the time pattern of benefit to the ILO.

Payables and accruals

42. Payables and accruals are financial liabilities for goods or services that have been received but not paid by the reporting date. Payables and accruals are of a short-term nature and are recognized at cost as the effect of discounting is not considered material.

43. The liability for health insurance claims incurred but not yet received relating to SHIF is classified as an accrual. It is estimated based on the expenditure patterns over the past five years and is adjusted on an annual basis.

Property and equipment

44. Property and equipment include the followings classes of assets:

- ❑ *Equipment:* Equipment is recorded at historical cost and presented at depreciated cost. Equipment is capitalized and recognized as an asset if its cost exceeds or is equal to a threshold of US\$5,000.
- ❑ *Land and buildings:* Land and buildings are valued at fair value based upon an external and independent valuation conducted annually. The net difference between historical cost and fair value for land and buildings is accounted for in a revaluation surplus which forms a separate component of net assets.
- ❑ *Leasehold improvement:* Leasehold improvements are recorded at historical cost and presented at depreciated cost. Leasehold improvements are capitalized and recognized as an asset if their cost exceeds or is equal to a threshold of US\$50,000.

45. The value of heritage assets, including donated works of art, is not recognized as an asset on the consolidated statement of financial position.

46. Property and equipment are derecognized either on disposal of or when they are permanently withdrawn from use and no future economic benefit or service potential is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of financial performance in the period of derecognition.

47. Depreciation of property and equipment is recognized over the estimated useful life of the assets using the straight line method, except for land which is not subject to depreciation. Depreciation of buildings is calculated based on the fair value at the beginning of the reporting year using the remaining useful life at that date. When a building is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the building and the net amount restated to the revalued amount. The estimated useful lives for property and equipment are as follows:

Class	Estimated useful life (years)
Buildings	
ILO headquarters (by component)	15–100
Field offices	20–75
Equipment	5–10
Leasehold improvements	Lower of estimated useful life (15–30) and term of lease

Provisions and contingent liability

48. Provisions are recognized for contingent liabilities when the ILO has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle that obligation, and the amount can be reliably estimated. The amount of the provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

49. Contingent liabilities are disclosed where a possible obligation is uncertain but can be measured, or where the ILO has a present obligation but cannot reliably measure the possible outflow of resources.

Revenues and receivables from non-exchange transactions and deferred revenue

50. Revenues and receivables from non-exchange transactions are recognized as follows:

□ *Assessed contributions:*

- Prior to the beginning of each financial period the ILO assesses each member State in accordance with article 13 of the ILO Constitution for its share of the regular budget. Contributions are calculated and payable in Swiss francs equal to the total amount of the Organization's regular budget for the biennial financial period, payable one half at the beginning of each year of the biennium. Revenue from assessed contributions is recognized as one half of the total on 1 January of each year of the biennium.
- Assessed contributions adopted by the ILC but not recognized as revenue at the reporting date are disclosed as contingent assets since they possess the essential characteristics of an asset but do not satisfy the criteria for asset recognition the inflow of resources being possible.
- A provision is established equal to the contributions of former member States and member States that are more than two years in arrears and have lost the right to vote under the ILO's Constitution. In Statement II, the assessed contributions from member States are presented net of the change in provision.
- Receivables from member States that have negotiated long-term financial arrangements with the ILO's Governing Body are measured initially at fair value after deducting any provision for impairment and collectability and subsequently valued at amortized cost using the effective interest rate methodology.
- Assessed contributions received in advance represent amounts received from member States for contributions related to future financial periods and are classified as deferred revenue.

□ *Voluntary contributions:*

- Voluntary contributions with no conditions are recognized as receivables and as revenue as of the reporting date.
- Voluntary contributions to development cooperation projects are normally subject to conditions related to performance. A receivable and a liability (deferred revenue) are initially recognized at fair value and subsequently measured at amortized cost as of the reporting date which is obtained through discounting as appropriate.
- Funds received from donors subject to conditions are carried as a liability. Revenue is recognized when the conditions stated in the agreement have been met. Unexpended balances of funds held on behalf of donors at the reporting date are recognized as a liability (due to donors under deferred revenue).
- Contributions received from donors for projects that form part of the Regular Budget Supplementary Account (RBSA) are normally unconditional, and are recognized as revenue and a receivable as of the reporting date when the agreements are signed between the ILO and the donor. However, if conditions requiring specific performance are imposed by a donor to the RBSA, recognition of revenue is deferred until the performance requirement has been satisfied.

- Contributions to the RBSA covering future periods are disclosed as contingent assets if the inflow of contribution to the ILO is probable at the reporting date.
- *Gifts and grants:*
 - The ILO receives non-conditional contributions in cash from member States and non-governmental organizations. These gifts and grants are recognized as voluntary contribution revenue when an agreement is signed between the ILO and a donor or on the receipt of cash if no agreement is signed by both parties.
- *ITC training services:*
 - The ITC provides training services under contracts to governments and organizations including the ILO. Agreements related to training activities are subsidized by non-conditional voluntary contributions which provide support to the Centre's operations. These agreements are considered non-exchange transactions since both parties to such transactions do not receive approximately equal direct benefit. Training activities that include restrictions on their use are recognized as revenue upon signing of a binding agreement. Agreements for which the Centre has full control and that include conditions, including the implicit or explicit obligation to return funds if such conditions are not met, are recognized as assets and liabilities (deferred revenue) upon signature of a binding agreement. The liability is reduced and revenue is recognized based on the proportion that expenses incurred bear to the estimated total expenses of the training activity.
 - Probable inflows of resources from voluntary contributions and training activities that have not been recognized as assets are disclosed as a contingent asset.
- *Contributions in-kind:*
 - Goods in-kind are recognized at fair value at the date of receipt. In-kind contributions of services are not recognized.
 - Right to use of land, office space and other facilities received from member States are disclosed in the notes to the consolidated financial statements.
- *Programme support income:*
 - Voluntary contributions accepted by the ILO include a charge for services provided by the ILO covering costs of administrative and operational support services, generally calculated as a percentage of total direct project costs. Revenue from programme support services is considered a non-exchange transaction and is recognized when earned through performance.

Revenue from exchange transactions

51. Revenue from exchange transactions is recognized as follows:

- *Sales and royalties:* Revenue is recognized on the date earned. Revenue related to the provision of services is valued based upon the stage of completion measured based upon the total costs incurred by the Organization in delivering the services at the reporting date. Sales of publications are recognized when the publication has been shipped to the purchaser. A provision for doubtful debts is established equal to 50 per cent of the amount outstanding from one year to two years and 100 per cent of the amount outstanding for more than two years unless the Organization receives

from the debtor a written confirmation of the amount due with a planned date of payment.

- ❑ *Investment income*: Interest income, earned based on a time-proportionate basis as it accrues taking into account the effective yield on the asset, gains and losses from sales of investments and changes of investment market value are recognized in the consolidated statement of financial performance in the period that they arise.
- ❑ *Staff/retiree benefit contributions* are recognized on the date the revenue becomes due in accordance with the Administrative Regulations of the SHIF.

Note 3 – New accounting standards

New accounting standards effective on 1 January 2017

52. In 2017, the ILO adopted the following new and amended standards effective on 1 January 2017 without any impact on the ILO's financial statements:

- ❑ IPSAS 34 – Separate Financial Statements, IPSAS 35 – Consolidated Financial Statements, IPSAS 36 – Investments in Associates and Joint Ventures, IPSAS 37 – Joint Arrangements, IPSAS 38 – Disclosure in Interests in Other Entities. These standards establish new accounting and disclosure requirements for investments in controlled entities, joint ventures and associates as well as the principles of presentation and preparation of consolidated financial statements. These standards have replaced the requirements in IPSAS 6 – Consolidated and Separate Financial Statements, IPSAS 7 – Investments in Associates and IPSAS 8 – Interests in Joint Ventures.

New accounting standards issued but not yet effective

53. In 2016 and 2017, the International Public Sector Accounting Standards Board (IPSASB) published the following new and amended standards:

IPSAS	Title	Effective date
Amendments to IPSAS 21	Impairment of Non-Cash-Generating Assets	1 January 2018
Amendments to IPSAS 26	Impairment of Cash-Generating Assets	1 January 2018
IPSAS 39	Employee Benefits	1 January 2018
IPSAS 40	Public Sector Combinations	1 January 2019

54. The ILO will adopt the above IPSAS and amendments effective 1 January 2018.

55. The amendments to IPSAS 21 and IPSAS 26 establish the impairment standards relating to non-cash and cash-generating assets measured using the revaluation method. This will have no significant impact on the ILO's financial statements.

56. IPSAS 39 – Employee Benefits replaces IPSAS 25 – Employee Benefits and provides for the elimination of the possible deferral of actuarial gains and losses and the immediate full recognition in net assets as well as amendments to the disclosure requirements in the notes to financial statements. This will have no significant impact on the ILO's financial statements.

57. IPSAS 40 – Public Sector Combinations – provides the first international accounting requirements that specifically address the needs of the public sector when accounting for combinations of entities and operations. The ILO does not foresee any significant impact on its financial statements.

Note 4 – Cash and cash equivalents

58. Cash required for immediate disbursement is maintained in cash and bank accounts. Cash equivalent balances in deposit accounts are available at short notice. Cash and cash equivalents as at the reporting date are as follows:

(US\$ millions)	US\$	CHF	€	Other	2017 total	2016 total
Cash	75.0	137.5	10.9	14.7	238.1	251.7
Cash equivalents	101.3	–	2.5	–	103.8	131.1
Total cash and cash equivalents	176.3	137.5	13.4	14.7	341.9	382.8

59. Effective 2017, the ILO has classified its cash equivalents and investments based on the investments' maturity period from the date of acquisition. Investments with maturity less than 90 days from the date of acquisition are presented under cash equivalents. The comparative figures for 2016 have been reclassified as follows:

(US\$ millions)	Balances per 2016 Financial statements	Reclassification	Reclassified balances As at 31.12.2016
Statement I			
Cash and cash equivalents	392.8	(10.0)	382.8
Investments – current	112.1	10.0	122.1
Statement IV			
Proceeds from sale of investments	67.5	110.0	177.5
Acquisitions of investments	(112.1)	(70.0)	(182.1)
Cash and cash equivalents, beginning of period	386.0	(50.0)	336.0
Cash and cash equivalents, end of period	392.8	(10.0)	382.8

Note 5 – Contributions receivable – Assessed contributions

60. Assessed contributions receivable as at the reporting date are as follows:

(US\$ millions)	2017	2016
Assessed contributions receivable (Notes 30, 31)	169.1	89.5
Less: Advance payments received from member States with financial arrangements (Note 30)	(2.0)	(1.8)
Less: Amortization of long-term financial arrangements	(1.0)	(1.3)
Less: Provision for doubtful collection of contributions	(20.3)	(10.6)
Total net receivable	145.8	75.8
■ Assessed contributions receivable – Current	135.4	65.2
■ Assessed contributions receivable – Non-current	10.4	10.6

61. Non-current contributions receivable represent amounts due from member States with financial arrangements approved by the ILC net of amortization and provision.

62. An ageing of the assessed contributions receivable is as follows:

(US\$ millions)	2017	2016
Less than 1 year	118.5	38.3
1–2 years	22.0	18.5
Over 2 years	26.6	30.9
Less provision for doubtful debts and amortization	(21.3)	(11.9)
Total	145.8	75.8

Note 6 – Contributions receivable – Voluntary contributions

63. As at the reporting date, voluntary contributions receivable are as follows (Note 15):

(US\$ millions)	2017	2016
Voluntary contributions receivable – Current		
Development cooperation projects (all with conditions)	305.4	218.8
ITC training services	4.9	3.2
Subtotal voluntary contributions receivable – Current	310.3	222.0
Voluntary contributions receivable – Non-current		
Development cooperation projects (all with conditions)	75.1	53.8
ITC training services	0.6	0.2
Subtotal voluntary contributions receivable – Non-current	75.7	54.0
Total voluntary contributions receivable	386.0	276.0

Note 7 – Derivative assets and liabilities

64. As at the reporting date the ILO has the following derivative assets and liabilities:

(US\$ millions)	2017	2016
Derivative assets		
SHIF forward purchase agreement – Current	0.1	0.8
ILO regular budget forward purchase agreement – Current	3.9	18.4
ILO regular budget forward purchase agreement – Non-current	3.4	–
Total derivative assets	7.4	19.2

65. The contractual amount of currency sold forward and the maturity of the outstanding derivative instruments as at the reporting date are as follows:

Derivative instrument	Maturity	Contractual amount (US\$ millions)
SHIF forward purchase agreement	Within the next three months	47.5
ILO forward purchase agreement within the portfolio	Within the next three months	1.4
ILO regular budget forward purchase agreement	Within the next 12 months	160.4
ILO regular budget forward purchase agreement	Within the following next 12 months	168.2

SHIF forward purchase agreement

66. The risk related to financial assets held on behalf of SHIF in currencies other than Swiss franc and US\$ (up to a 33 per cent level) is hedged by purchasing forward purchase agreements in each of the other currencies in which investments are held.

ILO forward purchase agreement within the portfolio

67. The risk related to financial assets held in the portfolio in currencies other than US dollar is minimized by hedging the risk using derivative instruments.

ILO regular budget forward purchase agreement

68. The primary source of revenue to finance the Organization's regular budget activities comes from contributions assessed on member States that are paid in Swiss francs. Prior to the beginning of each biennial financial period, the Organization hedges its forecast US dollar requirements for the following two years with foreign exchange forward purchases. Derivative financial instruments in the form of forward purchase agreements are therefore acquired for the purpose of ensuring that the amount of Swiss francs receivable from member States for their assessed contributions for the following biennium are sufficient to meet the ILO's US dollar requirements for its regular budget. The forward purchase agreements mature monthly and the monthly amounts are established based on the regular budget's forecast US dollar cash flow requirements over the biennium.

69. The ILO regular budget forward purchase agreements are designated as cash flow hedges. The changes of derivatives' value during the period was as follows:

(US\$ millions)	2017	2016
Fair value as at 1 January	18.4	23.9
Derivatives exercised during the period and recognised in net asset	(14.2)	(9.6)
Derivatives exercised during the period and recognised in surplus (deficit)	(4.2)	(4.2)
Change in fair value of the spot element recognized in net assets	4.2	4.1
Change in fair value of the forward element recognized in surplus (deficit)	3.1	4.2
Total fair value as at 31 December	7.3	18.4

70. The cash flow hedges were highly effective in 2017. The amount reclassified from net assets and included in the consolidated statement of financial performance as exchange gain (loss) and the amounts retained in net assets at the end of the year are as follows:

Net assets: Value of outstanding derivatives (US\$ millions)	2017	2016
Opening balance as at 1 January (Note 20)	14.2	19.7
Reclassification during the year to exchange gain (loss) and revaluation, net (effective hedge of the spot element – transactions realized during the period)	(14.2)	(9.6)
Net gain (loss) during the year recognized in net assets (effective hedge of the spot element – forecasted transactions)	4.2	4.1
Closing balance as at 31 December (Note 20)	4.2	14.2

71. The amounts retained in net assets as at 31 December 2017 are expected to mature and affect the consolidated statement of financial performance in 2018 and 2019 at the recognition of respectively the 2018 and 2019 assessed contributions from member States.

Note 8 – Investments

72. The Organization maintains five investment portfolios of identified financial instruments managed by external investment managers consisting principally of fixed income investments and unit funds. Investments include cash and cash equivalents which are excluded from the cash and cash equivalents section as they are part of a portfolio investment which are intended to be kept for the long term and reinvested.

73. Investments are placed in line with the approved investment policy in consultation with the ILO's Investments Committee and their performance is evaluated on a fair value basis.

74. The fair value and historic cost as at the reporting date is as follows:

(US\$ millions)	2017		2016	
	Fair value	Cost	Fair value	Cost
Investments – Current				
ILO short-term deposit	140.0	140.0	120.0	120.0
ITC one year term deposit	–	–	2.1	2.1
Subtotal investment – Current	140.0	140.0	122.1	122.1
Investments – Non-current				
Cash within the portfolios	3.1	3.1	1.0	1.0
Fixed income				
Bonds	74.5	74.1	70.9	70.4
Floating rate notes	29.1	29.1	25.4	25.5
Money market	18.0	17.9	24.4	24.3
Total fixed income investments	121.6	121.1	120.7	120.2
Unit funds	110.6	105.7	104.1	102.9
Subtotal investment – Non-current	235.3	229.9	225.8	224.1
Total investment	375.3	369.9	347.9	346.2

75. The movement of the investments during the reporting period is as follows:

(US\$ millions)	2017	2016
Fair value as at 1 January	347.9	343.8
Interest and net gain (loss) on investments	9.8	(0.5)
New investment during the period	220.0	182.1
Disposal of investments during the period	(202.4)	(177.5)
Fair value as at 31 December	375.3	347.9

76. Current investments include short-term deposits with maturity more than 90 days from the date of acquisition. The figures for 2016 reflect this classification (Note 4).

Note 9 – Other receivables

77. Other receivables are as follows:

(US\$ millions)	2017	2016
US income taxes	4.5	4.1
Receivable from UNDP	0.3	1.0
Other receivables	4.8	4.6
Total other receivables	9.6	9.7

78. An ageing of other receivables is as follows:

(US\$ millions)	2017	2016
Less than 1 year	7.2	7.6
1–2 years	1.8	0.6
Over 2 years	0.6	1.5
Total	9.6	9.7

Note 10 – Inventories

79. The movement of inventories during the reporting period is as follows:

(US\$ millions)	Production supplies	Publications	2017 total	2016 total
Balance as at 1 January	0.3	3.6	3.9	4.9
Produced and purchased	0.8	7.6	8.4	7.5
Inventory available	1.1	11.2	12.3	12.4
Less: Expensed	(0.7)	(4.2)	(4.9)	(5.1)
Less: Write-down	–	(1.6)	(1.6)	(1.3)
Less: Write-off	–	(1.4)	(1.4)	(2.1)
Balance as at 31 December	0.4	4.0	4.4	3.9

Note 11 – Other current assets

80. Other current assets as at the reporting date are as follows:

(US\$ millions)	2017	2016
Staff advances	8.2	8.4
Advances to implementing partners	1.6	1.0
Other	8.3	5.2
Total other current assets	18.1	14.6

Note 12 – Investment property

81. In March 2016 an agreement was reached with the State of Geneva to relinquish the ILO's rights under a 99 year leasehold on a plot of land located in Geneva, Switzerland. Based on the agreement reached, the Office relinquished its leasehold and in return received freehold title to one half of the property. The entire freehold property received was sold concurrently to a non-related party for CHF28 million (US\$28.4 million) generating a gain on sale of US\$0.1 million.

Note 13 – Property and equipment

82. The movement of property and equipment by asset class during the reporting period is as follows:

(US\$ millions)	Land	Buildings	Leasehold improvements	Equipment	Total
Net carrying amount as at 31 December 2015	309.0	151.1	8.1	7.7	475.9
Additions	–	34.3	0.1	0.8	35.2
Disposals	–	–	–	–	–
Depreciation	–	(1.7)	(0.6)	(2.0)	(4.3)
Exchange adjustment – Cost	–	–	(0.5)	(0.1)	(0.6)
Exchange adjustment – Depreciation	–	–	0.1	0.1	0.2
Net revaluation recognized in net assets	68.4	10.3	–	–	78.7
Subtotal 2016 movement	68.4	42.9	(0.9)	(1.2)	109.2
Closing balance as at 31 December 2016	377.4	194.0	7.2	6.5	585.1
Gross carrying amount as at 31 December 2016	377.4	194.0	11.4	11.3	594.1
Accumulated depreciation	–	–	(4.2)	(4.8)	(9.0)
Net carrying amount as at 31 December 2016	377.4	194.0	7.2	6.5	585.1
Additions	–	46.6	0.6	2.7	49.9
Depreciation	–	(4.6)	(0.6)	(2.3)	(7.5)
Disposals – Carrying amount	–	–	–	(0.4)	(0.4)
Disposals – Accumulated depreciation	–	–	–	0.4	0.4
Exchange adjustment – Cost	–	–	1.5	0.4	1.9
Exchange adjustment – Depreciation	–	–	(0.5)	(0.1)	(0.6)
Net revaluation recognized in net assets	(65.2)	(1.7)	–	–	(66.9)
Subtotal 2017 movement	(65.2)	40.3	1.0	0.7	(23.2)
Closing balance as at 31 December 2017	312.2	234.3	8.2	7.2	561.9
Gross carrying amount as at 31 December 2017	312.2	234.3	13.5	14.0	574.0
Accumulated depreciation	–	–	(5.3)	(6.8)	(12.1)
Net carrying amount as at 31 December 2017	312.2	234.3	8.2	7.2	561.9

Land and buildings

83. The Organization owns its headquarters building in Geneva, Switzerland, and the land upon which it was built along with an adjoining plot.

84. In addition, the Organization owns land and buildings in Abidjan, Côte d'Ivoire, Lima, Peru, and Santiago, Chile. In Buenos Aires, Argentina, and Brussels, Belgium, the Organization owns apartments located in buildings for which no separate land ownership exists. In Brasilia, Brazil, Dar es Salaam, United Republic of Tanzania, and Islamabad, Pakistan, it further owns buildings located on land to which the ILO has surface rights or leaseholds at a nominal cost (Note 28).

85. In order to more accurately reflect the value of its land and buildings, an independent appraiser reviewed and updated the fair value of all properties as at 31 December 2017 based on international valuation standards as promulgated by the International Valuation Standards Council, including assumptions relating to current market conditions. The change in fair value of the land and buildings in 2017 includes US\$27.1 million

revaluation gain due to currency rate fluctuation. The net difference between historical cost and land and buildings valued at fair value is recognized as a separate component of the net assets as shown in Note 20.

US\$ (thousands)	2017	2016
Land		
Headquarters – Geneva	303 155	369 159
Lima	3 650	3 561
Abidjan	582	489
Santiago	4 883	4 232
Total land	312 270	377 441
Buildings		
Headquarters – Geneva	208 557	169 713
Lima	11 557	11 275
Brasilia	436	432
Abidjan	3 298	2 773
Dar es Salaam	2 590	2 484
Buenos Aires	756	708
Islamabad	572	605
Santiago	5 893	5 489
Brussels	669	570
Total buildings	234 328	194 049
Total land and buildings	546 598	571 490

86. One third of the headquarter building in Geneva was under renovation in 2017. The related capital expenditures are presented as “Additions” to “Buildings”. In 2017, the independent appraiser reviewed and updated the estimated useful life of the structural works component to 100 years (150 years in 2016). The impact on the annual depreciation was an increase of the annual expenditure by US\$0.2 million.

Leasehold improvements

87. The Organization has constructed improvements on leasehold property in New Delhi (India), Bangkok (Thailand) and the Piedmont Pavilion and renovations to other buildings at the ITC.

Note 14 – Intangible assets

88. The movement of intangible assets by class during the reporting period is as follows:

(US\$ millions)	Software acquired externally	Software internally developed	Total
Net carrying amount as at 31 December 2015	0.7	1.6	2.3
Additions	0.1	0.3	0.4
Amortization	(0.2)	(0.4)	(0.6)
Subtotal 2016 movement	(0.1)	(0.1)	(0.2)
Closing balance as at 31 December 2016	0.6	1.5	2.1
Gross carrying amount as at 31 December 2016	1.0	2.6	3.6
Accumulated amortization	(0.4)	(1.1)	(1.5)
Net carrying amount as at 31 December 2016	0.6	1.5	2.1
Additions	0.3	0.8	1.1
Amortization	(0.2)	(0.5)	(0.7)
Subtotal 2017 movement	0.1	0.3	0.4
Closing balance as at 31 December 2017	0.7	1.8	2.5
Gross carrying amount as at 31 December 2017	1.3	3.4	4.7
Accumulated amortization	(0.6)	(1.6)	(2.2)
Net carrying amount as at 31 December 2017	0.7	1.8	2.5

Note 15 – Deferred revenue

89. Deferred revenue as at the reporting date is as follows:

(US\$ millions)	2017	2016
Deferred revenue – Current		
Assessed contributions received in advance	45.2	35.2
Voluntary contributions receivable relating to signed agreements	306.7	222.9
Due to donors (including ITC)	262.4	211.8
Receivables relating to signed agreements on ITC training services	2.0	1.2
SHIF contributions received in advance	0.7	0.6
Other deferred revenue	0.1	0.1
Subtotal current deferred revenue	617.1	471.8
Deferred revenue – Non-current		
Voluntary contributions receivable relating to signed agreements	75.1	53.8
Receivables relating to signed agreements on ITC training services	0.6	0.2
Subtotal non-current deferred revenue	75.7	54.0
Total deferred revenue	692.8	525.8

90. The deferred voluntary contribution revenue represents the amount receivable pending on the completion of the performance required by agreements between the Organization and the donors (Note 6).

Note 16 – Employee benefits

91. The employee benefits liabilities at the reporting date are as follows:

(US\$ millions)	2017	2016
Current liabilities		
Education grant	3.0	2.4
Accumulated leave	20.8	20.6
Home leave	0.3	0.4
Repatriation entitlements	3.7	3.5
ASHI liability	27.9	23.2
Subtotal current liabilities	55.7	50.1
Non-current liabilities		
Accumulated leave	12.9	12.7
Repatriation entitlements	42.7	43.3
ASHI liability	1 606.0	1 284.1
Subtotal non-current liabilities	1 661.6	1 340.1
Total employee benefit liabilities	1 717.3	1 390.2

92. Employee benefits are established in accordance with the *Staff Regulations* of the ILO and the ITC, and the *SHIF Regulations and Administrative Rules*.

Post-employment benefits

United Nations Joint Staff Pension Fund

93. The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

94. The ILO's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

95. During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as of 31 December 2015. As such, as an exception to the normal biannual cycle, a roll forward of the participation data as of 31 December 2013 to 31 December 2016 was used by the Fund for their 2016 financial statements. An actuarial valuation as of 31 December 2017 is currently being performed.

96. The roll forward of the participation data as of 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1 per cent (127.5 per cent in the 2013 valuation). The funded

ratio was 101.4 per cent (91.2 per cent in the 2013 valuation) when the current system of pension adjustments was taken into account.

97. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2016, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of article 26.

98. During 2017, the ILO's contributions paid to the UNJSPF amounted to US\$51 million (US\$51 million in 2016). Expected contributions due in 2018 are US\$52.6 million.

99. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

After-service health insurance plan (ASHI)

100. An actuarial valuation carried out in 2017 calculated the ILO's estimated liability for after-service medical benefits at the reporting date as described in the following paragraphs.

101. Each year, the ILO reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements for the ILO's after-service medical care plans. The selection includes harmonized actuarial factors as applied across the UN system. For the 2017 valuation, the assumptions and methods used are as described below.

Key financial assumptions	2017 (%)	2016 (%)
Discount rate	ILO: 1.34 ITC: 1.91 ISSA: 0.84	ILO: 1.34 ITC: 1.95 ISSA: 0.77
Rate of future compensation increases	UNJSPF rate (3.5 + 2017 UNJSPF scale)	UNJSPF rate (3.5 + 2013 UNJSPF scale)
Rate of pension increases	2.50	3.00
Medical inflation	3.60 from 2017 decreasing by 0.10 per year to 3.30	3.80 from 2016 decreasing by 0.20 per year to 3.00

102. The discount rate is determined by reference to market yields at the reporting date on high-quality corporate bonds. Based on the plan duration, the discount rate has been determined for each major currency in which the SHIF incurs liabilities (CHF, £, US\$, €). The final rate was determined by averaging the different discount rates, weighted by the benefits payments in the different currencies.

103. Should the assumptions about medical cost trends described above change, this would impact the measurement of the ASHI liability as follows:

Sensitivity information for health-care plans (US\$ millions)	2017	2016
1 per cent increase in health-care trend rate – Effect on service and interest costs	38.1	29.5
1 per cent decrease in health-care trend rate – Effect on service and interest costs	(27.2)	(21.3)
1 per cent increase in health-care trend rate – Effect on defined benefit obligation (DBO)	458.1	330.4
1 per cent decrease in health-care trend rate – Effect on DBO	(347.9)	(252.6)

104. The following table shows the change in present value of the defined benefit obligation during the reporting period.

(US\$ millions)	2017	2016
Defined benefit obligation, beginning of year	1 307.3	1 159.2
Current service cost	49.5	40.5
Interest cost	17.7	19.6
Net benefits paid	(27.9)	(23.2)
Actuarial (gain) loss due to experience	5.1	4.4
Actuarial (gain) loss due to assumption changes	282.2	106.8
Defined benefit obligation, end of year	1 633.9	1 307.3
Consolidated statement of financial position asset (liability), beginning of year	(1 307.3)	(1 159.2)
Total (charge) credit for interest cost and current service cost	(67.2)	(60.1)
Net benefits paid	27.9	23.2
Total (charge) credit recognized in consolidated statement of financial performance	(39.3)	(36.9)
Total (charge) credit recognized in net assets	(287.3)	(111.2)
Consolidated statement of financial position liability, end of year	(1 633.9)	(1 307.3)

105. The trend over the past five years of the defined benefit obligations and the experience adjustments is as follows:

(US\$ millions)	2017	2016	2015	2014	2013
Defined benefit obligation	1 633.9	1 307.3	1 159.2	1 088.2	811.8
Plan assets at fair value	–	–	–	–	–
Surplus (deficit)	(39.3)	(36.9)	(34.8)	(25.8)	(31.9)
Actuarial (gain) loss due to experience	5.1	4.4	5.4	11.4	1.3

106. Expenses related to interest cost and current services costs for 2017 have been recognized in the consolidated statement of financial performance as staff costs. Cumulative net actuarial losses of US\$925.2 million (cumulative net actuarial loss of US\$637.9 million as of 31 December 2016) have been recognized in net assets. Under IPSAS-25, the ASHI liability is considered unfunded and, therefore, no fair value of plan assets has been offset against the liability. However, an amount of US\$64.2 million is available in a SHIF Guarantee Fund (US\$61.4 million as at 31 December 2016) to cover future liabilities of SHIF. As referred to in paragraph 127, this amount is subject to arbitration proceeding. In addition, an amount of US\$6.1 million has been reserved to partially fund the ASHI liability. The total contribution paid to the ASHI liability reserve in 2017 was US\$1.2 million (US\$1.2 million in 2016).

107. The ILO finances its ASHI liability on a pay-as-you-go basis. The Programme and Budget for 2018–19 includes a provision of US\$30 million for this purpose.

Repatriation entitlements

108. An actuarial valuation carried out in 2017 calculated the ILO's estimated liability for repatriation entitlements at the reporting date as described in the following paragraphs.

109. Each year, the ILO reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements for the ILO's repatriation entitlements. For the 2017 valuation, the assumptions and methods used are as described below.

Key financial assumptions	2017 (%)	2016 (%)
Discount rate	Repatriation entitlement: 3.54 End of service payment: 1.28	Repatriation entitlement: 3.94 End of service payment: 1.42
Rate of future compensation increases: Repatriation grant and End of service	UNJSPF rate (3.5 + 2017 UNJSPF scale)	UNJSPF rate (3.5 + 2013 UNJSPF scale)
Rate of future cost increases: Repatriation travel and removal costs	1.30	3.00
Probability of benefit claim	ILO repatriation grant: 74 ITC Repatriation grant: 95 ILO travel and removal: 80.65 ITC travel and removal: 95	ILO repatriation grant: 73 ITC Repatriation grant: 95 ILO travel and removal: 77.8 ITC travel and removal: 95

110. The discount rates were determined for the currencies US dollar and euro by reference to the AA corporate bond yield curve in the respective currency as at 31 December 2017.

111. The following table shows the change in present value of the defined benefit obligation during the reporting period:

(US\$ millions)	2017	2016
Defined benefit obligation, beginning of year	46.8	48.9
Current service cost	2.9	3.0
Past service costs	–	–
Interest cost	1.5	1.7
Net benefits paid	(3.5)	(4.1)
Actuarial (gain) loss due to experience	(2.0)	(1.4)
Actuarial (gain) loss due to assumption changes	(0.7)	(0.9)
Foreign currency exchange rate changes	1.4	(0.4)
Defined benefit obligation, end of year	46.4	46.8
Consolidated statement of financial position asset (liability), beginning of year	(46.8)	(48.9)
Total (charge) credit for interest cost and current service cost	(4.4)	(4.7)
Net benefits paid	3.5	4.1
Foreign currency exchange rate changes	(1.4)	0.4
Total (charge) credit recognized in consolidated statement of financial performance	(2.3)	(0.2)
Total (charge) credit recognized in net assets	2.7	2.3
Consolidated statement of financial position liability, end of year	(46.4)	(46.8)

112. The trend over the four past years of the defined benefit obligations and the experience adjustments is as follows:

(US\$ millions)	2017	2016	2015	2014	2013
Defined benefit obligation	46.4	46.8	48.9	57.7	48.5
Plan assets at fair value	–	–	–	–	–
Surplus (deficit)	(2.3)	(0.2)	(0.5)	(3.8)	1.4
Actuarial (gain) loss due to experience	(2.0)	(1.4)	3.6	(1.5)	0.5

113. Expenses related to interest cost and current services costs for 2017 have been recognized in the consolidated statement of financial performance as staff costs. Cumulative net actuarial gains of US\$4.2 million (cumulative net actuarial gains of US\$1.5 million as at 31 December 2016) have been recognized in net assets. Under IPSAS-25, the repatriation entitlement liability is considered unfunded and, therefore, no fair value of plan assets has been offset against the liability. However, an amount of US\$44.6 million has been reserved by the ILO in the Terminal Benefits Fund (US\$40.5 million as at 31 December 2016) to partially cover the repatriation grant. The total contribution paid to the Terminal Benefits Fund in 2017 was US\$4.8 million (US\$4.8 million in 2016).

Note 17 – Borrowings

114. Borrowings consist of two loans in Swiss francs made to the ILO from the Foundation for Buildings for International Organisations (FIPOI): the first, in 1967, for the construction, and the second, in 2017, for the renovation of the ILO's headquarters building.

(US\$ millions)	2017	2016
Nominal value 1967 borrowings for the HQ building construction	30.3	32.5
Nominal value 2017 borrowings for the HQ building renovation	3.1	–
Nominal value at end of period	33.4	32.5
Carrying amount 1967 borrowings for the HQ building construction (amortized cost)	27.6	29.3
Carrying amount 2017 borrowings for the HQ building renovation	3.1	–
Carrying amount at end of period	30.7	29.3

Construction loan – 1967

115. This borrowing consists of a loan in Swiss francs made in 1967 to the ILO from the FIPOI for the construction of the ILO's headquarters building with an original interest rate based on market rates. The interest was subsequently waived by the Swiss Confederation in 1996. The loan is unsecured. The outstanding amount of CHF30.3 million for the 1967 borrowing is reflected in US\$ at amortized cost (US\$27.6 million).

(US\$ millions)	2017	2016
Nominal value at beginning of period	32.5	37.4
Repaid in current period	(3.8)	(3.8)
Exchange rate effect	1.6	(1.1)
Nominal value at end of period	30.3	32.5
Fair value adjustment beginning of period	(3.2)	(4.1)
Exchange rate effect	(0.1)	0.2
Amortization using effective interest rate	0.6	0.7
Fair value adjustment end of period	(2.7)	(3.2)
Total borrowings	27.6	29.3

116. The loan is repayable in annual instalments and the final payment will be due in 2025. The annual payments in nominal value (CHF3.7 million per year) are as follows:

(US\$ millions)	2017	2016
Payments due next year	3.8	3.6
Payments due from second to fifth year	15.1	14.4
Payments due after five years	11.4	14.5
Nominal value at end of period	30.3	32.5

Renovation loan – 2017

117. At its 309th Session in November 2010, the ILO Governing Body approved the comprehensive plan for the renovation of the ILO headquarters building in Geneva. The financing of the project was approved in June 2015. The International Labour Conference authorized the ILO Director-General to contract a loan with the FIPOI for the partial financing of the renovation.

118. In September 2016, the Swiss Confederation agreed to provide through the FIPOI a loan to the ILO of up to CHF70 million. Following the approval of the federal Government in late 2016, the loan agreement with the FIPOI was signed in April 2017. The loan will be received by the ILO in quarterly instalments over the period September 2017 to December 2019. A total of US\$3.1 million has been received as of 31 December 2017.

119. The loan will be repaid over 30 years, with the first instalment due at the end of 2019.

120. The annual interest rate is fixed at 0.5 per cent. Interest charges will commence once the total loan has been received, or in 2020 at the latest.

Note 18 – Due to member States

121. The amount due to member States at the reporting date is calculated as follows:

(US\$)	2017	2016
Undistributed surpluses of prior periods	109 689	104 660
Undistributed net premia of prior periods	311 101	236 567
Undistributed 50 per cent of net premia	6 688 621	198 853
Subtotal	7 109 412	540 079
Incentive Fund	7 025 278	379 321
Total payable to member States	14 134 690	919 400
■ Due to member States – Current	190 882	399 230
■ Due to member States – Non-current	13 943 808	520 170

122. In accordance with article 11 of the ILO Financial Regulations, the net premium due to member States is determined on a biennial basis at the end of the second year of the biennium. The 2016 amount was included as a separate element of the accumulated fund balance pending the biennial results.

Calculation of net premium and Incentive Fund

123. The Financial Regulations provide for the distribution of elements of the net result of operations of the regular budget as follows:

124. Net premium – Article 11(5) and (7) provides for distribution to member States of one half of any net premium earned on the forward purchasing transactions between US dollars and Swiss francs to member States apportioned on the basis of the proportion of the total of each member State's assessed contributions during the biennium in which the net premium was earned and credited against assessed contributions payable in the next financial period. The remaining one half of the net premium is transferred to the Incentive Fund. The calculation of the various distributions of the net operational result in accordance with the Financial Regulations is done on a biennial basis. The balance due to member States for the 2016–17 biennium is as follows:

Exchange Equalization Account (EEA) calculation (US\$)	2016–17	2014–15
Premium earned on the forward purchase of US dollars	13 670 058	6 220 073
Exchange gains (losses) from revaluation from budgetary to UN operational rate of exchange		
Revenue	(27 787 975)	14 306 481
Expense	14 286 570	(3 715 625)
Forward purchase of US dollars	11 958 112	(2 712 890)
Revaluation of assets, liabilities, reserves and fund balances at UN operational rate of exchange	2 834 719	(13 712 835)
Revaluation of provision for contribution arrears	(1 624 963)	(453 556)
Revaluation of regular budget surplus	40 722	479 702
Total EEA	13 377 243	411 350

125. Incentive Fund – Article 11(4)–(6) provides for an Incentive Fund financed from 60 per cent of the interest earned on temporarily surplus regular budget funds and one half of any net premium earned on the forward purchasing transactions. The Incentive Fund is distributed to member States that have paid their assessed contributions in full at the end of either the first or second year of the biennial financial period during which the net premium was earned.

Composition of Incentive Fund (US\$)	2017	2016
Interest earned in current year	212 279	118 674
Interest earned in prior year	124 378	61 794
Total interest earned	336 657	180 468
50 per cent of net premium	6 688 622	198 853
Total available in Incentive Fund	7 025 278	379 321

Note 19 – Other current liabilities

126. Other current liabilities at the reporting date are as follows:

(US\$ millions)	2017	2016
Due to ITU	1.8	1.8
Provisions for contingencies	0.9	0.3
Pass-through funds held as administrative agent	5.2	–
Other	1.9	1.7
Total other current liabilities	9.8	3.8

127. The amount due to the ITU represents the ITU's share of the SHIF guarantee fund balance following its withdrawal from the SHIF. This amount has been contested by the ITU and is subject to arbitration proceedings.

128. In some donor agreements, the ILO is the administrative agent responsible for passing through funds to implementing partners or other beneficiaries. A liability is established to reflect the funds received from the donor but not yet passed through to implementing partners or beneficiaries as at 31 December.

129. Provisions for contingencies are recognized for legal cases pending before the ILO Administrative Tribunal for which it is more likely than not that the ILO will be required to settle the obligation and the amount can be reliably measured. The movement of provisions for contingencies during the reporting period is as follows:

(US\$ millions)	2017	2016
Balance as at 1 January	0.3	0.4
Additional provisions raised during the period	0.6	0.2
Provisions used during the period	–	(0.1)
Unused provisions reversed during the period	–	(0.2)
Balance as at 31 December	0.9	0.3

Note 20 – Reserves and accumulated balances

130. Net assets represent the value of the Organization's assets less its outstanding liabilities at the reporting date. Net assets consist of the following elements:

- *Reserves*: represent the balances of special funds established by the Governing Body, the ILC or the Financial Regulations and include:
 - *Working Capital Fund*: to finance budgetary expenditure pending receipt of assessed contributions and, subject to prior Governing Body approval, to meet emergencies.
 - *Income Adjustment Account*: to provide temporary internal funding when the Working Capital Fund proves insufficient to cover regular budget deficits.
 - *Terminal Benefits Fund*: to finance payments of repatriation grant and end-of-service benefits. The ILO makes a defined contribution to the Fund as a percentage of compensation paid to eligible employees during the financial period.
 - *Fidelity Guarantee Fund*: to finance losses due to theft or misappropriation.
 - *Extra-budgetary reserve*: to finance costs incurred in connection with development cooperation projects not reimbursed by donors.
 - *SHIF Guarantee Fund*: to meet solvency needs.

- *ASHI Liability Reserve*: established to partially fund the ASHI liability.
- *ITC's Working Capital Fund*: established in accordance with the Financial Regulations of the Centre.
- *Accumulated balances* include:
 - Employee benefits: represent initial recognition of the employee liabilities and subsequent impact of changes in actuarial gains and losses.
 - *Revaluation surplus of land and buildings*: represents the accumulated difference between the historic cost of land and buildings and the fair value as determined by the independent valuation. In 2016, US\$41.4 million have been transferred from revaluation surplus of land and buildings to the accumulated surplus following the sale of the ILO's investment property.
 - *Value of outstanding derivatives*: represents the portion of the unrealized gain or loss on the change in value of the forward purchase agreement that is used to meet the ILO's regular budget requirements for US dollars, acquired through the sale of Swiss francs obtained from member States' assessed contributions and accounted for as cash flow hedge using hedge accounting that is attributable to changes in the spot US dollar to Swiss franc exchange rate.
 - *Translation difference*: represents the foreign exchange difference resulting from the consolidation of ITC's euro-based accounts.
 - *Accumulated surpluses (deficits)*: represent the accumulated surpluses and deficits from the Organization's operations after deducting funds returned to member States in accordance with the Financial Regulations.

131. Reserves and accumulated balances as at the reporting date are as follows:

(US\$ thousands)	2017	2016
Reserves		
Working Capital Fund	–	34 146
Income Adjustment Account	28 381	60 020
Terminal Benefit Fund	44 207	40 501
Fidelity Guarantee Fund	1 349	1 344
Extra-budgetary Fund	25	25
SHIF Guarantee Fund	64 167	61 364
ASHI Liability Reserve	6 025	4 823
ITC's Working Capital Fund	2 882	2 882
Total reserves	147 036	205 105
Accumulated balances		
Employee benefits	(1 485 368)	(1 200 820)
Revaluation surplus of land and buildings	369 733	436 601
Value of outstanding derivatives	4 223	14 271
Translation difference	(4 159)	(6 785)
Accumulated surplus	299 922	284 650
Total accumulated balances	(815 649)	(472 083)
Total net assets	(668 613)	(266 978)

Note 21 – Expenses

132. The ILO has the following main categories of expenses as presented in Statement II:

- ❑ *Salaries, employee benefits and other personnel costs:* cover all entitlements for active officials of all grades as authorized by the Staff Regulations. Also include the current period interest cost and current service cost related to the ASHI liability.
- ❑ *Travel:* includes expenses related to official travel for staff and delegates to meetings.
- ❑ *Subcontracts:* expenses related to externally provided services for the delivery of outputs.
- ❑ *General operating expenses:* includes all charges for the operation, maintenance and security of ILO premises (owned, leased and donated); communication costs including postage, telephone and internet services; freight expense; and insurance.
- ❑ *Supplies, materials and small equipment:* covers the costs of consumables used in ILO day-to-day operations including office supplies, paper, books and other publications, computer and printer supplies, equipment and intangible assets which do not meet the capitalization policy, and vehicle fuel.
- ❑ *Depreciation and amortization:* covers the costs of depreciation of buildings, equipment and leasehold improvements and amortization of the costs of intangible assets including externally acquired and internally developed software.
- ❑ *Seminars, workshops and other training:* covers the costs of delivering training, including the costs of facilities, consultants, materials, subsistence payments and travel of officials and attendees to training-related events.
- ❑ *Staff development:* expenses related to staff training and development including rental of space, participant travel, and presenter fees and travel costs.
- ❑ *Health benefits:* all payments made by SHIF on behalf of active or former ILO officials or dependants.
- ❑ *Contributions and grants in aid:* covers expenses under regular budget development cooperation activities and contributions made to jointly funded bodies.
- ❑ *Finance expenses:* includes bank charges and custody fees paid in connection with the management of ILO bank accounts, disbursements and investments together with adjustments relating to discounting of non-current receivables and borrowings.
- ❑ *Other expenses:* expenses that cannot be reported under the classifications above.

Note 22 – Financial instruments

133. Financial instruments are categorized and measured as follows:

	Classification	Measurement
Cash and cash equivalents	Cash and cash equivalents	Fair value through surplus or deficit (level 1)
Contributions receivable – Assessed	Loans and receivables	Amortized cost
Contributions receivable – Voluntary	Loans and receivables	Amortized cost
Derivative assets and liabilities excluding effective hedging instruments	Held for trading	Fair value through surplus or deficit (level 2)
Derivative assets and liabilities arising from effective hedging instruments	Held for trading	Fair value through net assets for effective hedging (level 2)
Other receivables	Loans and receivables	Amortized cost
Investments	Designated as at fair value through surplus or deficit upon initial recognition	Fair value through surplus or deficit (level 1 or 2)
Payables	Financial liabilities	Amortized cost
Borrowings	Financial liabilities	Amortized cost

134. The fair values of cash, cash equivalents, investments-current and fixed-income investments (bonds) are determined using quoted prices in active market (level 1). The fair value of fixed income investments (floating rate notes and money market), unit funds and forward purchase agreements are provided by banks or investment portfolio managers based on price models using observable market prices (level 2).

135. The carrying amount of the ILO's financial instruments at amortized cost is a reasonable approximation of their fair value.

Financial risk management

136. The ILO's activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The ILO's investment management programme focuses on these risks and seeks to minimize potential effects on financial performance.

Market risk

137. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

138. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

139. The ILO is exposed to foreign exchange risk on revenues and expenses denominated in foreign currencies, predominately Swiss francs along with minor exposure to other currencies. The ILO's primary objectives in managing currency risk are to preserve cash flows and reduce variations in performance from the negative impact of exchange rate fluctuation.

140. The ILO mitigates the currency fluctuation risk to its regular budget by naturally hedging through receipt of revenue in Swiss francs from assessed contributions in an

amount sufficient to finance its current Swiss franc liabilities and entering into forward purchase agreements to finance its US dollar-based liabilities.

141. The ILO also enters into forward purchase agreements to hedge the non-Swiss franc investments (excluding 35 per cent in US dollar investments) held on behalf of the SHIF against currency gains or losses, since the SHIF's liabilities are predominately Swiss franc and US dollar based.

142. The ILO receives voluntary contributions to finance development cooperation projects in currencies other than US dollars. These funds are converted to US dollars to meet cash flow requirements. No currency exposure exists as the related development cooperation project budgets are adjusted to reflect the US dollars equivalent amount of the funds received.

143. The table below shows the impact on surplus/deficit and net assets as of 31 December 2017, if the major currencies to which the Organization was exposed, weakened or strengthened by 5 per cent against the US dollar:

(US\$ millions)	Impact on surplus/deficit		Impact on net assets	
	CHF ¹	€ ²	CHF ¹	€ ²
5 per cent depreciation of the foreign currency against US\$:				
Financial assets and liabilities other than derivative instruments	(15.4)	(0.4)	–	–
Derivative instruments	–	–	15.7	–
Total impact	(15.4)	(0.4)	15.7	–
5 per cent appreciation of the foreign currency against US\$:				
Financial assets and liabilities other than derivative instruments	17.1	0.5	–	–
Derivative instruments	–	–	(17.3)	–
Total impact	17.1	0.5	(17.3)	–

¹ The UN operational rate of exchange was US\$1 = CHF0.978 as at 31 December 2017.

² The UN operational rate of exchange was US\$1 = €0.837 as at 31 December 2017.

144. The assets and liabilities held in Swiss francs and euro are generally matched to the underlying fund currency. Therefore, while there may be an impact in US dollar terms, the substantive effect in the underlying currency would be immaterial.

145. The assets and liabilities held in other currencies are minor. The movements in exchange rates against the US dollar of these currencies would not have a material impact on the consolidated statement of financial position or consolidated statement of financial performance.

Interest rate risk

146. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

147. The ILO is exposed to interest rate risk through its interest-bearing financial assets and fixed-income instruments. The impact of an increase or decrease in interest rates by 50 basis points is estimated as an increase or decrease on the surplus/(deficit) of the year by US\$2.2 million. The ILO believes that it is not subject to significant interest rate risk. The ILO mitigates its interest rate risk by adjusting the maturities of investments in accordance with expected changes in global economic environment.

Credit risk

148. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

149. The ILO is exposed to credit risk through its cash and cash equivalents, investments, accounts receivable and derivative assets. The maximum exposure to credit risk is the carrying value of these assets.

150. The ILO's investment policies limit the amount of credit exposure to any one counter-party and include conservative minimum credit quality requirements of investment grade.

151. Cash deposits and investments are widely spread in order to avoid an over-concentration of funds with few institutions. The total percentage of ILO cash and investments that may be placed with a single institution or investments is determined according to its long-term credit rating. Funds are generally deposited or invested only with institutions maintaining a long-term credit rating of A or higher, except where local banking conditions require the use of banks with a lower international rating but a good record of performance locally.

152. As at the reporting date, the rating of banks in which cash and short-term deposits are held and the rating of the investments are as follows:

Credit rating ¹	Cash and cash equivalents		Investments	
	Carrying amount (US\$ millions)	%	Carrying amount (US\$ millions)	%
AAA	–	–	41.7	11.1
AA	54.1	15.8	34.8	9.3
A	274.8	80.4	181.5	48.4
BBB	7.9	2.3	6.7	1.8
<BBB	4.2	1.2	–	–
Not rated	0.9 ²	0.3	110.6 ³	29.5
Total	341.9	100.0	375.3	100.0

¹ The rating is based on long-term credit ratings by Fitch; where unavailable equivalent ratings by Standard and Poor's and Moody's were utilized. The A rating category includes A+ and A-, the AA rating category includes AA+ and AA-.

² The ILO implements projects worldwide. A small part of the bank accounts operating outside of Geneva are held with banks not rated by reference to external credit ratings.

³ Investments by the ILO in unit funds which are not rated by credit rating agencies but have adequate disclosure on the underlying asset credit risk.

153. The ILO manages its exposure to derivative counterparty credit risk by contracting primarily with reputable financial institutions (A rated). As at the end of the year, the rating of derivatives counterparties was A+ within a maximum exposure of US\$7.4 million.

154. The ILO is not exposed to material credit risk related to account receivables as contributions are due primarily from large regulatory or governmental bodies.

Liquidity risk

155. Liquidity risk is the risk that the ILO will encounter difficulties in meeting its financial obligations associated with financial liabilities.

156. The ILO manages liquidity risk by continuously monitoring actual and estimated cash flows. The ILO's total current assets of US\$963.7 million are sufficient to settle its current financial liabilities of US\$743.4 million. On an ongoing basis, it is anticipated that the ILO will continue to have sufficient liquidity to meet its financial obligations.

Capital management

157. The ILO defines the capital that it manages as the aggregate of its net assets which is comprised of accumulated balances and reserves. The ILO's objectives in managing capital are to safeguard its ability to continue as a going concern to fund its asset base and to fulfil its mission and objectives as established by its member States and donors. The ILO's overall strategy with respect to capital management includes the balancing of its operating and capital activities with its funding on a biennial basis along with the hedging of its expense requirements in US dollars against its Swiss franc-based revenue from member States' assessments.

158. The ILO manages its capital structure in light of global economic conditions, the risk characteristics of the underlying assets and working capital requirements. The ILO manages its capital by reviewing on a regular basis the actual results against the budgets approved by member States.

Note 23 – Operating leases

159. The ILO enters into operating lease arrangements for the use of field and regional office premises and for the use of photocopying and printing equipment. Some of these leases contain renewal and escalation clauses based generally on local inflationary indices.

160. The total amount paid by the ILO to other UN agencies for leases under cost-sharing agreements based on the reimbursement of actual cost incurred was US\$1.9 million in 2017 (US\$1.9 million in 2016).

161. The total amount of lease and sublease expense recognized in 2017 was US\$10.3 million (US\$11.1 million in 2016).

162. Future minimum lease rental payments for non-cancellable leases for the following periods are:

(US\$ millions)	2017	2016
Within one year	0.6	0.6
Later than one year and not later than five years	1.7	1.9
Later than five years	0.8	1.2
Total operating lease commitments	3.1	3.7

163. The total amount of rent earned under contingent lease agreements in 2017 was US\$0.6 million (US\$0.7 million in 2016), comprising an ITC cost-sharing agreement with other UN agencies with the rent based on reimbursement of actual cost incurred and a profit-sharing agreement with the catering operator in the Geneva premises based on a percentage of revenue.

Note 24 – Statement of comparison of budget and actual amounts

164. The ILO does not publish a consolidated budget. Consequently, separate statements of comparison of budget and actual amounts are prepared for each of the published budgets: the regular budget adopted by the ILC; the budget of CINTERFOR adopted by the ILO Governing Body; and the budget of the ITC adopted by the ITC Board of Directors. The approved budgets are governed by the Financial Regulations and are prepared on a different basis than that of the consolidated financial statements.

165. IPSAS requires that where the consolidated financial statements and the budget are not prepared on a comparable basis, a reconciliation be presented identifying separately any basis, timing and entity differences.

Basis difference

166. The consolidated statement of financial position, consolidated statement of financial performance, consolidated statement of changes in net assets and consolidated statement of cash flow are prepared on a full accrual basis while the approved budgets are prepared on a modified accrual basis. In addition, the ILO regular budget is prepared using a fixed budget rate of exchange. In the preparation of the consolidated financial statements all foreign currency transactions are converted to US dollars using the UN operational rate on the date of each transaction.

Timing difference

167. Timing differences occur as the ILO regular budget and CINTERFOR's budget are prepared and approved on a biennial basis while the financial statements are prepared on an annual basis.

Entity difference

168. Entity differences occur since the published approved budgets include only certain of the funds managed by the Organization, while the consolidated financial statements provide information of all the funds and entities of the ILO.

169. The following table provides a reconciliation of the result in accordance with the Financial Regulations and with IPSAS:

(US\$ thousands)	Regular budget	CINTERFOR	ITC	Other funds and eliminations	Total
Net result per budgetary basis (Statement V)	(70 166)	278	799	–	(69 089)
Less: Timing difference	(21 042)	(211)	–	–	(21 253)
Adjusted net result	(91 208)	67	799	–	(90 342)
Reconciling items from budgetary basis to IPSAS basis:					
Treatment of exchange differences	10 207	–	(1 363)	–	8 844
Provision for assessed contributions receivable	69 993	–	–	–	69 993
Amortization of receivable from member States with financial arrangement	188	–	–	–	188
Recognition of inventory	311	–	–	–	311
Recognition of property and equipment	294	8	(375)	–	(73)
Recognition of intangible assets	665	–	–	–	665
Accrual of employee benefits	10	(30)	–	–	(20)
Provision for contingencies	15	–	–	–	15
Unrealized loss from forward purchase agreements	(1 050)	–	–	–	(1 050)
Accrual for ITC training services	294	–	–	–	294
Use of prior year surplus (ITC)	–	–	(923)	–	(923)
Delivery adjustment relating to the ILO (ITC)	–	–	140	–	140
Entity difference (ITC)	–	–	(38)	–	(38)
Other funds and eliminations	–	–	–	(17 234)	(17 234)
Total differences	80 927	(22)	(2 559)	(17 234)	61 112
Net result per IPSAS basis	(10 281)	45	(1 760)	(17 234)	(29 230)

170. The following table provides a reconciliation between Statement V and Statement IV for the year ended 31 December 2017:

(US\$ thousands)	Operating	Investing	Financing	Total
Regular budget net result (Statement V-A)	(70 166)	–	–	(70 166)
CINTERFOR net result (Statement V-B)	278	–	–	278
ITC net result (Statement V-C)	799	–	–	799
Total surplus on budgetary basis	(69 089)	–	–	(69 089)
Total net result on basis comparable to the adopted budgets:				
Timing difference	(21 253)	–	–	(21 253)
Basis difference	77 793	593	–	78 386
Entity difference	24 265	(69 130)	(676)	(45 541)
Net cash flows	11 716	(68 537)	(676)	(57 497)
Effect of exchange rates on cash and cash equivalents				16 621
Actual amount in the consolidated statement of cash flow (Statement IV)				(40 876)

Note 25 – Related party disclosures

171. Key management personnel during the period were the Director-General, Deputy Directors-General, Assistant Directors-General, Regional Directors, the Treasurer and Financial Comptroller and the Legal Adviser. The Governing Body consists of representatives of member States and constituents elected by the ILO who serve without compensation from the ILO and are not considered key management personnel.

172. The aggregate remuneration paid to key management personnel includes salaries and all allowances established within the ILO Staff Regulations and approved by the Governing Body. Key management personnel are members of the UNJSPF to which the personnel and the ILO contribute and are also eligible for participation in the SHIF including the after-service medical insurance if they meet the eligibility requirements in the SHIF Regulations and Administrative Rules.

Category	2017		2016	
	Individuals¹	Remuneration (US\$)	Individuals¹	Remuneration (US\$)
Key management	13.0	4 447 875	12.7	4 613 261

¹ Full-time equivalent.

173. The total amount of advances granted to key management in 2017 was US\$80,854 (US\$19,540 as of 31 December 2016). The outstanding balance as at 31 December 2017 was US\$51,018 (US\$3,908 as of 31 December 2016).

174. There were no loans or advances granted to key management personnel and their close family members which were not available to other categories of staff in accordance with ILO Staff Regulations.

175. There were related party transactions involving key management personnel in 2017 totalling US\$146,557 (US\$133,693 in 2016). All such transactions are under terms and conditions that would apply in the normal course of operations.

Note 26 – Revenue from non-exchange transactions

176. The primary source of revenue to the ILO is from non-exchange transactions including the assessed contributions paid by its member States and voluntary in-kind contributions made by donors to its development cooperation projects and RBSA.

(US\$ millions)	2017	2016
Assessed contributions from member States	360.1	382.9
Voluntary contributions to development cooperation projects, RBSA, and gifts and grants	246.7	220.6
ITC training services	14.4	12.6
Total revenue from non-exchange transactions	621.2	616.1
Receivables from assessed contributions (Note 5)	145.8	75.8
Receivables from voluntary contributions (Note 6)	386.0	276.0
Total receivables from non-exchange transactions	531.8	351.8
Liabilities recognized for conditional voluntary contributions	381.8	276.7
Liabilities recognized for ITC training services	2.5	1.4
Advance receipts from assessed contributions	45.2	35.2

Note 27 – Contingent assets and liabilities and commitments

Contingent assets

177. As at the reporting date, the ILO has the following contingent assets:

(US\$ millions)	2017
Member State contribution assessed for 2018–19 ¹	784.1
Revenue from voluntary ITC training services covering future periods	9.4
Contributions to the RBSA covering future periods	10.8
Total contingent assets	804.3

¹ CHF760.6 million at the budget rate of exchange of US\$1 = CHF0.97 adopted by the ILC for the 2018–19 biennium.

Contingent liabilities

178. The ILO has contingent liabilities of US\$0.2 million for claims or legal actions related to the ILO Administrative Tribunal (US\$0.1 million as at 31 December 2016).

Commitments

179. Outstanding contracts for renovation of the headquarters building totalled US\$84.1 million as at 31 December 2017 (US\$121.3 million as at 31 December 2016).

180. Future minimum lease rental payments for non-cancellable leases are presented in Note 23.

Note 28 – Contributions in-kind

181. The ILO receives contributions in-kind from its member States of the right to use land, office space and other facilities in its operations. The major contributions over extended periods include:

In-kind contribution	Location of the ILO's controlled entity/external offices	Provided by
Right to use campus and facilities	ITC, Turin	City of Turin, Italy
Right to use land	Islamabad	Government of Pakistan
	Brasilia	Government of Brazil
	Dar es Salaam	Government of the United Republic of Tanzania
Right to use office space and other facilities	Budapest	Government of Hungary
	Beirut	Government of Lebanon
	Yaoundé	Government of Cameroon
	Kuwait City	Government of Kuwait
	Ankara	Government of Turkey
	Abuja	Government of Nigeria
	Lisbon	Government of Portugal
	Madrid	Government of Spain
	Rome	Government of Italy
	Colombo	Government of Sri Lanka
	CINTERFOR, Montevideo	Government of Uruguay

Note 29 – Segment reporting

182. Segment reporting is based on the information that is most useful to readers of the financial statements to evaluate the ILO's financial position and performance and make decisions about allocating resources.

183. In 2017, the ILO has adopted a new format for the segment reporting consistent with the practice of other UN organizations. Segment reporting is presented in a format that distinguishes funds with approved budgets (Statement V-A, V-B and V-C), activities financed by voluntary contributions and other subsidiary funds (Note 24). Inter-fund transfers are eliminated in the consolidated financial statements.

Consolidated statement of financial performance by segment for the year ended 31 December 2017 (US\$ millions)

	Funds with approved budgets				Voluntary contribution activities	Subsidiary funds	Inter-segments transfers elimination	Total
	Regular budget	CINTERFOR	ITC	Subtotal				
Revenue								
Assessed contributions	360.1	–	–	360.1	–	–	–	360.1
Voluntary contributions	–	0.5	14.9	15.4	234.9	0.5	(4.1)	246.7
ITC training services	–	–	24.8	24.8	–	–	(10.4)	14.4
Programme support income	–	–	–	–	–	21.9	(21.9)	–
Staff/retiree benefit contributions	–	–	–	–	–	21.3	0.3	21.6
Sales and royalties	–	–	1.3	1.3	5.9	5.8	(0.8)	12.2
Investment income	–	–	0.1	0.1	1.3	6.3	–	7.7
Inter-segment contribution	–	1.2	–	1.2	–	87.3	(88.5)	–
Gain on sale of investment property	–	–	–	–	–	–	–	–
Other income	–	–	1.0	1.0	–	0.2	(0.4)	0.8
Total revenue	360.1	1.7	42.1	403.9	242.1	143.3	(125.8)	663.5
Expenses								
Salaries, employee benefits and other personnel costs	266.1	1.4	20.6	288.1	86.6	60.6	(19.2)	416.1
Travel	12.1	0.1	3.6	15.8	9.0	1.4	(0.5)	25.7
Subcontracts	33.3	–	8.9	42.2	83.4	2.4	(2.3)	125.7
General operating expenses	31.9	0.1	3.7	35.7	7.0	1.8	(1.2)	43.3
Supplies, materials and small equipment	5.2	–	0.9	6.1	3.6	0.4	–	10.1
Depreciation and amortization	1.8	–	1.1	2.9	–	5.3	–	8.2
Seminars, workshops and other training	14.7	0.1	3.7	18.5	27.2	0.9	(6.5)	40.1
Staff development	6.3	–	–	6.3	–	–	(0.6)	5.7
Health benefits	–	–	–	–	–	48.4	0.1	48.5
Contributions and grants in aid	32.8	–	–	32.8	1.7	47.2	(73.4)	8.3
Programme support costs	–	–	–	–	22.3	–	(22.3)	–
Finance expenses	–	–	0.1	0.1	0.4	1.6	–	2.1
Other expenses	3.1	–	–	3.1	–	(0.9)	–	2.2
Total expenses	407.3	1.7	42.6	451.6	241.2	169.1	(125.9)	736.0
Foreign exchange gains/(losses)	36.9	–	(1.2)	35.7	(0.6)	8.2	–	43.3
Net surplus (deficit)	(10.3)	(0.0)	(1.7)	(12.0)	0.3	(17.6)	0.1	(29.2)

Consolidated statement of financial performance by segment for the year ended 31 December 2016 (US\$ millions)

	Funds with approved budgets				Voluntary contribution activities	Subsidiary funds	Inter-segments transfers elimination	Total
	Regular budget	CINTERFOR	ITC	Subtotal				
Revenue								
Assessed contributions	382.9	–	–	382.9	–	–	–	382.9
Voluntary contributions	–	0.3	11.6	11.9	195.0	13.8	–	220.6
ITC training services	–	–	23.7	23.7	–	–	(11.1)	12.6
Programme support income	–	–	–	–	–	19.7	(19.7)	(0.0)
Staff/retiree benefit contributions	–	–	–	–	–	20.0	–	20.0
Sales and royalties	–	0.0	1.2	1.2	4.1	6.3	(1.2)	10.3
Investment income	–	0.0	0.1	0.1	0.0	5.8	–	5.9
Inter-segment contribution	–	1.2	4.1	5.3	1.2	71.1	(77.6)	–
Gain on sale of investment property	–	–	–	–	–	0.2	–	0.2
Other income	–	0.2	0.9	1.1	–	1.5	–	2.6
Total revenue	382.9	1.7	41.5	426.0	200.3	138.3	(109.6)	655.0
Expenses								
Salaries, employee benefits and other personnel costs	251.5	1.1	25.9	278.5	88.2	57.6	(17.8)	406.5
Travel	11.9	0.1	3.9	15.9	8.8	2.2	(0.3)	26.5
Subcontracts	24.1	0.1	8.7	32.8	50.3	7.9	(1.5)	89.5
General operating expenses	29.3	0.1	4.4	33.8	6.9	1.9	(1.5)	41.1
Supplies, materials and small equipment	3.2	(0.0)	1.3	4.4	3.1	0.5	(0.0)	8.0
Depreciation and amortization	1.6	0.0	1.0	2.7	–	2.2	–	4.9
Seminars, workshops and other training	12.2	0.1	3.3	15.7	26.2	3.7	(6.5)	39.1
Staff development	4.1	–	–	4.1	–	0.0	(0.7)	3.4
Health benefits	–	–	–	–	–	43.8	–	43.8
Contributions and grants in aid	32.1	–	–	32.1	1.7	33.5	(61.2)	6.2
Programme support costs	–	–	–	–	20.1	0.0	(20.1)	–
Finance expenses	–	0.0	0.0	0.0	–	2.3	–	2.4
Other expenses	3.3	–	–	3.3	–	0.2	–	3.5
Total expenses	373.4	1.5	48.5	423.3	205.3	155.9	(109.6)	674.9
Foreign exchange gains/(losses)	8.4	0.0	0.2	8.6	0.0	(10.4)	–	(1.8)
Net surplus (deficit)	17.9	0.2	(6.8)	11.3	(4.9)	(28.0)	–	(21.7)

Note 30 – Assessed contributions – Summary

Assessed contributions of member States and amounts due by States for prior periods of membership in the ILO Summary for the year ended 31 December 2017 (in CHF)

Details	Balance due as at 1.1.2016 ⁽¹⁾	Assessed Contributions 2016–17	Total amounts due	Amount received or credited ⁽²⁾			Balance due as at 31.12.2017
				2016	2017	Total income	
A. Assessed contributions for the financial period 2016–17:							
2016 – Assessed with the budget ⁽³⁾		378 769 384	378 769 384	339 549 951	17 645 462	357 195 413	21 573 971
2017 – Assessed with the budget		378 760 250	378 760 250		262 899 663	262 899 663	115 860 587
Total assessed contributions for the financial period 2016–17		757 529 634	757 529 634	339 549 951	280 545 125	620 095 076	137 434 558
B. Assessed contributions for previous financial periods due from member States	104 843 529		104 843 529	58 991 379	24 523 430	83 514 809	21 328 720
C. Amounts due by States for prior periods of membership in the ILO	6 615 689		6 615 689	–	–	–	6 615 689
Total assessed contributions and other amounts due for previous financial periods	111 459 218	–	111 459 218	58 991 379	24 523 430	83 514 809	27 944 409
Total 2016–17	111 459 218	757 529 634	868 988 852	398 541 330	305 068 555	703 609 885	165 378 967
Total 2014–15	101 044 569	761 197 000	862 241 569	399 547 831	351 234 520	750 782 351	111 459 218

Balance in US dollars at the United Nations rate of exchange for 31 December 2017 (0.978 Swiss francs to the dollar)

Less: prepayments of financial arrangements

Assessed contributions receivable in US dollars

169 099 148

(1 962 819)

167 136 329

⁽¹⁾ Excludes assessed contributions for 2016–17.

⁽²⁾ Includes credits to member States in respect of:

The incentive scheme for 2014 and 2015 respectively

50 per cent Net Premium for prior years

Surplus for prior years

2016 **2017**

81 485 267 163

68 999 142 048

29 447 –

Total credits

179 931 409 211

⁽³⁾ Includes Cook Islands' 2015 and 2016 contributions of 2,117 Swiss francs and 3,788 Swiss francs respectively, and Tonga's 2016 contribution of 3,229 Swiss francs, assessed, following their admission to membership of the ILO, after adoption of the income budget by the International Labour Conference for the relevant period. Cook Islands and Tonga joined the ILO on 12 June 2015 and 24 February 2016 respectively.

Note 31 – Assessed contributions – Detailed information

Assessed contributions of member States and amounts due by States for prior periods of membership in the ILO

Details for the year ended 31 December 2017 (in CHF)

State	2016–17 Assessed Contributions							Amounts due for previous financial periods				Calendar years of Assessment	Total due as at 31.12.2017	
	2016				2017			Balance due as at 31.12.2017	Amounts Received or Credited		Balance due as at 31.12.2017			
	Assessed Contributions		Amounts Received or Credited		Assessed Contributions		Amounts Received or Credited							
	%	Amount	in 2016	in 2017	%	Amount			in 2017	in 2016				in 2017
Afghanistan	0.005	18 938	124	-	0.006	22 726	-	41 540	38 060	36 952	-	1 108	2015-17	42 648
Albania	0.010	37 876	37 876	-	0.008	30 301	2 676	27 625	-	-	-	-	2017	27 625
Algeria	0.137	518 901	518 901	-	0.161	609 804	609 804	-	-	-	-	-	-	-
Angola	0.010	37 876	17	37 859	0.010	37 876	37 876	-	39 208	-	39 208	-	-	-
Antigua and Barbuda ⁽²⁾	0.002	7 575	2	-	0.002	7 575	-	15 148	126 711	-	-	126 711	2000-17	141 859
Argentina	0.432	1 636 244	1 121 686	514 558	0.893	3 382 329	768 000	2 614 329	1 552 185	1 552 185	-	-	2017	2 614 329
Armenia ⁽¹⁾	0.007	26 513	26 513	-	0.006	22 726	22 726	-	1 167 666	96 000	120 000	951 666	1995-2004	951 666
Australia	2.075	7 859 275	7 859 275	-	2.338	8 855 415	8 855 415	-	-	-	-	-	-	-
Austria	0.798	3 022 507	3 022 507	-	0.720	2 727 074	2 727 074	-	-	-	-	-	-	-
Azerbaijan ⁽¹⁾	0.040	151 504	151 504	-	0.060	227 256	227 256	-	2 654 390	247 743	247 743	2 158 904	1994-2005	2 158 904
Bahamas	0.017	64 389	64 389	-	0.014	53 026	53 026	-	-	-	-	-	-	-
Bahrain	0.039	147 716	147 716	-	0.044	166 654	166 654	-	-	-	-	-	-	-
Bangladesh	0.010	37 876	37 812	64	0.010	37 876	37 876	-	30	30	-	-	-	-
Barbados	0.008	30 301	30 301	-	0.007	26 513	26 513	-	-	-	-	-	-	-
Belarus	0.056	212 106	212 106	-	0.056	212 106	212 106	-	315 495	157 746	157 749	-	-	-
Belgium	0.999	3 783 815	3 783 815	-	0.885	3 352 028	3 352 028	-	-	-	-	-	-	-
Belize	0.001	3 788	2	-	0.001	3 788	2	7 572	-	-	-	-	2016-17	7 572
Benin	0.003	11 363	95	11 184	0.003	11 363	-	11 447	25 015	24 850	165	-	2016-17	11 447
Bolivia, Plurinational State of	0.009	34 088	4	34 084	0.012	45 451	3	45 448	34 235	34 235	-	-	2017	45 448
Bosnia and Herzegovina	0.017	64 389	64 389	-	0.013	49 239	49 239	-	-	-	-	-	-	-
Botswana	0.017	64 389	64 389	-	0.014	53 026	53 026	-	-	-	-	-	-	-
Brazil	2.936	11 120 401	2 691	-	3.825	14 487 579	-	25 605 289	22 337 406	3 984 981	18 352 425	-	2016-17	25 605 289
Brunei Darussalam	0.026	98 478	38	98 440	0.029	109 840	109 840	-	-	-	-	-	-	-
Bulgaria	0.047	178 017	178 017	-	0.045	170 442	170 442	-	-	-	-	-	-	-

State	2016–17 Assessed Contributions							Amounts due for previous financial periods				Calendar years of Assessment	Total due as at 31.12.2017	
	2016				2017			Balance due as at 31.12.2017	Balance due as at 01.01.2016	Amounts Received or Credited in 2016 in 2017				Balance due as at 31.12.2017
	Assessed Contributions		Amounts Received or Credited		Assessed Contributions		Amounts Received or Credited in 2017							
	%	Amount	in 2016	in 2017	%	Amount								
Burkina Faso	0.003	11 363	2	11 361	0.004	15 150	15 150	-	20 264	-	20 264	-	-	
Burundi	0.001	3 788	15	3 773	0.001	3 788	3 788	-	17 690	-	17 690	-	-	
Cabo Verde	0.001	3 788	49	-	0.001	3 788	-	7 527	1 904	-	-	1 904	2015-17	9 431
Cambodia	0.004	15 150	15 150	-	0.004	15 150	15 150	-	-	-	-	-	-	-
Cameroon	0.012	45 451	11 147	-	0.010	37 876	93	72 087	-	-	-	-	2016-17	72 087
Canada	2.986	11 309 781	11 309 781	-	2.922	11 067 374	11 067 374	-	-	-	-	-	-	-
Central African Republic ⁽¹⁾	0.001	3 788	3 788	-	0.001	3 788	3 465	323	65 749	8 405	8 192	49 152	1998-2000+2004-07+2017	49 475
Chad	0.002	7 575	75	-	0.005	18 938	9	26 429	-	-	-	-	2016-17	26 429
Chile	0.334	1 265 059	915 228	349 831	0.399	1 511 253	1 511 253	-	-	-	-	-	-	-
China	5.151	19 509 940	19 509 940	-	7.924	30 012 962	30 012 962	-	-	-	-	-	-	-
Colombia	0.259	980 989	31	-	0.322	1 219 608	-	2 200 566	1 133 135	219 393	242 686	671 056	2015-17	2 871 622
Comoros ⁽²⁾	0.001	3 788	-	-	0.001	3 788	-	7 576	460 058	-	-	460 058	1985-2017	467 634
Congo	0.005	18 938	39	18 899	0.006	22 726	18 628	4 098	-	-	-	-	2017	4 098
Cook Islands ⁽⁵⁾	0.001	5 905	5 905	-	0.001	3 788	3 788	-	-	-	-	-	-	-
Costa Rica	0.038	143 929	143 929	-	0.047	178 017	178 005	12	-	-	-	-	2017	12
Côte d'Ivoire	0.011	41 664	33 483	8 181	0.009	34 088	34 088	-	4 126	4 126	-	-	-	-
Croatia	0.126	477 238	477 238	-	0.099	374 973	374 973	-	-	-	-	-	-	-
Cuba	0.069	261 345	261 345	-	0.065	246 194	193 185	53 009	-	-	-	-	2017	53 009
Cyprus	0.047	178 017	178 017	-	0.043	162 867	162 867	-	-	-	-	-	-	-
Czech Republic	0.386	1 462 014	1 462 014	-	0.344	1 302 935	1 302 935	-	-	-	-	-	-	-
Democratic Republic of the Congo	0.003	11 363	146	11 217	0.008	30 301	7 705	22 596	22 797	-	22 797	-	2017	22 596
Denmark	0.675	2 556 632	2 556 632	-	0.584	2 211 960	2 211 960	-	-	-	-	-	-	-
Djibouti ⁽²⁾	0.001	3 788	2	-	0.001	3 788	-	7 574	105 758	3 728	-	102 030	1996+1998-2017	109 604
Dominica ⁽²⁾	0.001	3 788	2	-	0.001	3 788	-	7 574	37 495	-	-	37 495	2006-17	45 069
Dominican Republic	0.045	170 442	170 442	-	0.046	174 230	164 528	9 702	-	-	-	-	2017	9 702
Ecuador	0.044	166 654	10 431	-	0.067	253 769	209	409 783	-	-	-	-	2016-17	409 783
Egypt	0.134	507 539	263	507 276	0.152	575 715	575 715	-	-	-	-	-	-	-
El Salvador	0.016	60 602	910	-	0.014	53 026	-	112 718	134 710	40 021	37 915	56 774	2015-17	169 492
Equatorial Guinea ⁽²⁾	0.010	37 876	2	-	0.010	37 876	-	75 750	133 787	-	-	133 787	2012-17	209 537
Eritrea	0.001	3 788	3 788	-	0.001	3 788	3 788	-	-	-	-	-	-	-

State	2016–17 Assessed Contributions							Amounts due for previous financial periods				Calendar years of Assessment	Total due as at 31.12.2017	
	2016				2017			Balance due as at 31.12.2017	Balance due as at 01.01.2016	Amounts				Balance due as at 31.12.2017
	Assessed Contributions		Amounts Received or Credited		Assessed Contributions		Amounts Received or Credited							
	%	Amount	in 2016	in 2017	%	Amount	in 2017			in 2016	in 2017			
Estonia	0.040	151 504	151 504	-	0.038	143 929	143 929	-	-	-	-	-	-	
Ethiopia	0.010	37 876	15	37 858	0.010	37 876	18	37 861	38 015	38 015	-	-	2016-17	37 861
Fiji	0.003	11 363	11 363	-	0.003	11 363	11 363	-	-	-	-	-	-	-
Finland	0.519	1 965 766	1 965 766	-	0.456	1 727 147	1 727 147	-	-	-	-	-	-	-
France	5.596	21 195 424	21 195 424	-	4.861	18 411 536	18 411 536	-	-	-	-	-	-	-
Gabon ⁽²⁾	0.020	75 752	7	-	0.017	64 389	-	140 134	135 788	-	31 257	104 531	2014-17	244 665
Gambia ⁽²⁾	0.001	3 788	-	-	0.001	3 788	-	7 576	60 191	-	-	60 191	1999-2017	67 767
Georgia ⁽¹⁾	0.007	26 513	26 513	-	0.008	30 301	30 301	-	1 904 915	599 356	430 066	875 493	1997-2004	875 493
Germany	7.145	27 062 420	27 062 420	-	6.392	24 210 355	24 210 355	-	-	-	-	-	-	-
Ghana	0.014	53 026	11	49 524	0.016	60 602	-	64 093	11 078	-	11 078	-	2016-17	64 093
Greece	0.638	2 416 490	2 397 979	18 511	0.471	1 783 961	1 783 961	-	661 251	661 251	-	-	-	-
Grenada ⁽²⁾	0.001	3 788	2	-	0.001	3 788	-	7 574	22 476	3 766	7 556	11 154	2013-17	18 728
Guatemala	0.027	102 265	102 265	-	0.028	106 053	106 053	-	-	-	-	-	-	-
Guinea	0.001	3 788	5	3 783	0.002	7 575	7 575	-	3 806	-	3 806	-	-	-
Guinea-Bissau ⁽²⁾	0.001	3 788	2	-	0.001	3 788	-	7 574	271 815	-	-	271 815	1992-2001+2003-17	279 389
Guyana	0.001	3 788	3 788	-	0.002	7 575	7 575	-	-	-	-	-	-	-
Haiti	0.003	11 363	11 363	-	0.003	11 363	11 358	5	22 695	22 695	-	-	2017	5
Honduras	0.008	30 301	30 301	-	0.008	30 301	30 301	-	5 247	5 247	-	-	-	-
Hungary	0.266	1 007 502	1 007 502	-	0.161	609 804	609 804	-	-	-	-	-	-	-
Iceland	0.027	102 265	102 240	25	0.023	87 115	87 115	-	-	-	-	-	-	-
India	0.666	2 522 543	2 522 543	-	0.737	2 791 463	2 791 463	-	-	-	-	-	-	-
Indonesia	0.346	1 310 510	1 310 510	-	0.504	1 908 952	1 908 952	-	-	-	-	-	-	-
Iran, Islamic Republic of	0.356	1 348 386	9 767	1 118 176	0.471	1 783 961	-	2 004 404	1 574 941	1 328 801	246 140	-	2016-17	2 004 404
Iraq ⁽¹⁾	0.068	257 557	257 557	-	0.129	488 601	156	488 445	3 657 239	304 770	-	3 352 469	1995-2007+2017	3 840 914
Ireland	0.418	1 583 218	1 583 193	25	0.335	1 268 847	1 268 847	-	-	-	-	-	-	-
Israel	0.396	1 499 891	1 400 612	99 279	0.430	1 628 669	1 344 547	284 122	-	-	-	-	2017	284 122
Italy	4.450	16 854 831	16 854 831	-	3.750	14 203 509	13 356 082	847 427	-	-	-	-	2017	847 427
Jamaica	0.011	41 664	41 477	187	0.009	34 088	34 088	-	-	-	-	-	-	-
Japan	10.839	41 053 823	41 053 823	-	9.684	36 679 143	36 679 143	-	-	-	-	-	-	-
Jordan	0.022	83 327	83 327	-	0.020	75 752	60	75 692	-	-	-	-	2017	75 692

State	2016–17 Assessed Contributions							Amounts due for previous financial periods								
	2016				2017			Balance due as at 31.12.2017	Balance due as at 01.01.2016	Amounts Received or Credited				Balance due as at 31.12.2017	Calendar years of Assessment	Total due as at 31.12.2017
	Assessed Contributions	Amounts Received or Credited			Assessed Contributions	Amounts Received or Credited										
	%	Amount	in 2016		in 2017	%	Amount	in 2017			in 2016	in 2017				
Kazakhstan ⁽¹⁾	0.121	458 300	458 300	-	0.191	723 432	723 432	-	1 286 682	257 335	257 335	772 012	1998-99	772 012		
Kenya	0.013	49 239	4	30 325	0.018	68 177	3	87 084	5 911	-	5 911	-	2016-17	87 084		
Kiribati	0.001	3 788	47	-	0.001	3 788	-	7 529	7 717	7 444	-	273	2015-17	7 802		
Korea, Republic of	1.995	7 556 267	7 556 267	-	2.040	7 726 709	7 726 709	-	-	-	-	-	-	-		
Kuwait	0.273	1 034 015	1 034 015	-	0.285	1 079 467	-	1 079 467	1 037 509	1 037 509	-	-	2017	1 079 467		
Kyrgyzstan ⁽¹⁾	0.002	7 575	-	-	0.002	7 575	-	15 150	1 166 441	7 693	7 575	1 151 173	1992-2017	1 166 323		
Lao People's Democratic Republic	0.002	7 575	7 575	-	0.003	11 363	7 750	3 613	-	-	-	-	2017	3 613		
Latvia	0.047	178 017	178 017	-	0.050	189 380	189 380	-	-	-	-	-	-	-		
Lebanon	0.042	159 079	1 562	-	0.046	174 230	-	331 747	389 544	364 385	-	25 159	2015-17	356 906		
Lesotho	0.001	3 788	3 788	-	0.001	3 788	3 788	-	-	-	-	-	-	-		
Liberia	0.001	3 788	2	3 786	0.001	3 788	3 788	-	91 035	-	91 035	-	-	-		
Libya ⁽²⁾	0.142	537 839	62	-	0.125	473 450	-	1 011 227	885 799	-	-	885 799	2014-17	1 897 026		
Lithuania	0.073	276 495	276 495	-	0.072	272 707	272 707	-	-	-	-	-	-	-		
Luxembourg	0.081	306 796	306 796	-	0.064	242 406	429	241 977	-	-	-	-	2017	241 977		
Madagascar	0.003	11 363	118	11 245	0.003	11 363	10 545	818	23 095	20 628	2 467	-	2017	818		
Malawi	0.002	7 575	49	7 526	0.002	7 575	7 425	150	14 829	-	14 829	-	2017	150		
Malaysia	0.281	1 064 316	1 064 316	-	0.322	1 219 608	1 219 608	-	-	-	-	-	-	-		
Maldives, Republic of	0.001	3 788	1	-	0.002	7 575	-	11 362	3 806	3 806	-	-	2016-17	11 362		
Mali	0.004	15 150	14 715	435	0.003	11 363	11 363	-	5	5	-	-	-	-		
Malta	0.016	60 602	60 591	11	0.016	60 602	60 586	16	5	5	-	-	2017	16		
Marshall Islands	0.001	3 788	3 788	-	0.001	3 788	3 788	-	-	-	-	-	-	-		
Mauritania	0.002	7 575	7 575	-	0.002	7 575	7 575	-	9 376	9 376	-	-	-	-		
Mauritius	0.013	49 239	49 239	-	0.012	45 451	45 451	-	-	-	-	-	-	-		
Mexico	1.843	6 980 551	4 800	1 365 705	1.436	5 438 997	1 573	11 047 470	7 014 171	3 881 000	3 133 171	-	2016-17	11 047 470		
Moldova, Republic of ⁽¹⁾	0.003	11 363	11 363	-	0.004	15 150	15 150	-	1 364 670	136 467	136 467	1 091 736	1995-2004	1 091 736		
Mongolia	0.003	11 363	11 363	-	0.005	18 938	18 938	-	-	-	-	-	-	-		
Montenegro	0.005	18 938	18 938	-	0.004	15 150	15 150	-	-	-	-	-	-	-		
Morocco	0.062	234 831	234 831	-	0.054	204 530	204 530	-	25 300	25 300	-	-	-	-		
Mozambique	0.003	11 363	11 363	-	0.004	15 150	15 150	-	-	-	-	-	-	-		
Myanmar	0.010	37 876	37 876	-	0.010	37 876	37 876	-	-	-	-	-	-	-		

Financial report and audited consolidated financial statements for the year ended 31 December 2017

State	2016–17 Assessed Contributions							Amounts due for previous financial periods				Calendar years of Assessment	Total due as at 31.12.2017	
	2016				2017			Balance due as at 31.12.2017	Balance due as at 01.01.2016	Amounts Received or Credited				Balance due as at 31.12.2017
	Assessed Contributions %	Amount	Amounts Received or Credited in 2016	in 2017	Assessed Contributions %	Amount	Amounts Received or Credited in 2017			in 2016	in 2017			
Namibia	0.010	37 876	37 876	-	0.010	37 876	37 876	-	-	-	-	-	-	
Nepal	0.006	22 726	22 726	-	0.006	22 726	22 632	94	-	-	-	2017	94	
Netherlands	1.655	6 268 482	6 268 482	-	1.483	5 617 014	5 617 014	-	-	-	-	-	-	
New Zealand	0.253	958 263	958 263	-	0.268	1 015 077	1 015 077	-	-	-	-	-	-	
Nicaragua	0.003	11 363	11 363	-	0.004	15 150	14 474	676	-	-	-	2017	676	
Niger	0.002	7 575	5	-	0.002	7 575	9	15 136	-	-	-	2016-17	15 136	
Nigeria	0.090	340 884	3 096	337 788	0.209	791 609	743 049	48 560	19 168	-	19 168	2017	48 560	
Norway	0.852	3 227 037	3 227 037	-	0.849	3 215 674	3 215 674	-	-	-	-	-	-	
Oman	0.102	386 335	386 289	46	0.113	427 999	427 974	25	53	53	-	2017	25	
Pakistan	0.085	321 946	321 946	-	0.093	352 247	340 987	11 260	50	50	-	2017	11 260	
Palau	0.001	3 788	1	3 787	0.001	3 788	3 617	171	4 280	-	4 280	2017	171	
Panama	0.026	98 478	98 478	-	0.034	128 778	120 987	7 791	-	-	-	2017	7 791	
Papua New Guinea	0.004	15 150	95	15 055	0.004	15 150	8 237	6 913	31	-	31	2017	6 913	
Paraguay ⁽¹⁾	0.010	37 876	-	37 876	0.014	53 026	53 026	-	550 456	80 884	85 332	1990+1998-2003+2011-13	384 240	
Peru	0.117	443 149	376 602	66 547	0.136	515 114	515 114	-	135 770	135 770	-	-	-	
Philippines	0.154	583 291	583 291	-	0.165	624 954	624 954	-	-	-	-	-	-	
Poland	0.922	3 492 169	3 492 169	-	0.841	3 185 374	3 185 374	-	-	-	-	-	-	
Portugal	0.474	1 795 324	1 795 324	-	0.392	1 484 740	1 484 740	-	-	-	-	-	-	
Qatar	0.209	791 609	791 609	-	0.269	1 018 865	1 018 865	-	-	-	-	-	-	
Romania	0.226	855 998	855 998	-	0.184	696 919	696 914	5	-	-	-	2017	5	
Russian Federation	2.439	9 237 962	9 237 962	-	3.089	11 699 904	11 699 904	-	-	-	-	-	-	
Rwanda	0.002	7 575	2	7 573	0.002	7 575	6 959	616	18 750	15 174	3 576	2017	616	
Saint Kitts and Nevis	0.001	3 788	-	3 788	0.001	3 788	3 788	-	7 503	-	7 503	-	-	
Saint Lucia	0.001	3 788	3 788	-	0.001	3 788	3 788	-	-	-	-	-	-	
Saint Vincent and the Grenadines	0.001	3 788	-	3 309	0.001	3 788	-	4 267	14 827	14 625	202	2016-17	4 267	
Samoa	0.001	3 788	3 768	20	0.001	3 788	3 788	-	55	55	-	-	-	
San Marino	0.003	11 363	11 363	-	0.003	11 363	11 363	-	-	-	-	-	-	
Sao Tome and Principe ⁽²⁾	0.001	3 788	2	-	0.001	3 788	-	7 574	197 126	-	7 609	1995-2017	197 091	
Saudi Arabia	0.865	3 276 276	3 276 276	-	1.147	4 344 380	4 344 380	-	-	-	-	-	-	
Senegal	0.006	22 726	260	22 466	0.005	18 938	2 538	16 400	-	-	-	2017	16 400	

State	2016–17 Assessed Contributions							Amounts due for previous financial periods				Calendar years of Assessment	Total due as at 31.12.2017	
	2016				2017			Balance due as at 31.12.2017	Balance due as at 01.01.2016	Amounts Received or Credited				Balance due as at 31.12.2017
	Assessed Contributions		Amounts Received or Credited		Assessed Contributions		Amounts Received or Credited in 2017							
	%	Amount	in 2016	in 2017	%	Amount								
Serbia	0.040	151 504	151 504	-	0.032	121 203	121 203	-	-	-	-	-	-	-
Seychelles	0.001	3 788	4	3 784	0.001	3 788	3 788	-	-	-	-	-	-	-
Sierra Leone ⁽²⁾	0.001	3 788	-	-	0.001	3 788	-	7 576	425 077	-	-	425 077	1996-2017	432 653
Singapore	0.384	1 454 439	1 454 439	-	0.447	1 693 058	1 693 058	-	-	-	-	-	-	-
Slovakia	0.171	647 680	647 680	-	0.160	606 016	606 016	-	-	-	-	-	-	-
Slovenia	0.100	378 760	378 760	-	0.084	318 159	318 159	-	-	-	-	-	-	-
Solomon Islands ⁽²⁾	0.001	3 788	2	-	0.001	3 788	-	7 574	33 903	-	-	33 903	2004-2007+2010-17	41 477
Somalia ⁽²⁾	0.001	3 788	-	-	0.001	3 788	-	7 576	404 364	-	-	404 364	1988-2017	411 940
South Africa	0.372	1 408 988	1 408 988	-	0.364	1 378 687	1 378 687	-	-	-	-	-	-	-
South Sudan ⁽²⁾	0.004	15 150	-	-	0.003	11 363	-	26 513	48 651	-	-	48 651	2012-2017	75 164
Spain	2.975	11 268 117	11 268 117	-	2.444	9 256 900	9 256 900	-	-	-	-	-	-	-
Sri Lanka	0.025	94 690	94 690	-	0.031	117 416	117 416	-	-	-	-	-	-	-
Sudan	0.010	37 876	468	32 412	0.010	37 876	-	42 872	103 879	74 291	29 588	-	2016-17	42 872
Suriname	0.004	15 150	2	-	0.006	22 726	-	37 874	30 357	-	29 861	496	2015-17	38 370
Swaziland	0.003	11 363	11 363	-	0.002	7 575	7 575	-	11 404	11 404	-	-	-	-
Sweden	0.961	3 639 886	3 639 886	-	0.957	3 624 736	3 624 736	-	-	-	-	-	-	-
Switzerland	1.048	3 969 407	3 969 407	-	1.141	4 321 654	4 321 654	-	-	-	-	-	-	-
Syrian Arab Republic	0.036	136 354	136 354	-	0.024	90 902	90 902	-	-	-	-	-	-	-
Tajikistan ⁽²⁾	0.003	11 363	-	-	0.004	15 150	-	26 513	542 387	32 500	39 485	470 402	1995-2017	496 915
Tanzania, United Republic of	0.009	34 088	2	33 933	0.010	37 876	-	38 029	57 333	-	57 333	-	2016-17	38 029
Thailand	0.239	905 237	905 237	-	0.291	1 102 192	1 102 192	-	-	-	-	-	-	-
The former Yugoslav Republic of Macedonia	0.008	30 301	30 301	-	0.007	26 513	26 513	-	30 448	30 448	-	-	-	-
Timor-Leste	0.002	7 575	2	7 573	0.003	11 363	10 798	565	3 810	-	3 810	-	2017	565
Togo	0.001	3 788	3 788	-	0.001	3 788	3 788	-	-	-	-	-	-	-
Tonga ⁽⁵⁾	0.001	3 229	-	3 229	0.001	3 788	3 760	28	-	-	-	-	2017	28
Trinidad and Tobago	0.044	166 654	166 654	-	0.034	128 778	128 778	-	-	-	-	-	-	-
Tunisia	0.036	136 354	136 354	-	0.028	106 053	106 053	-	-	-	-	-	-	-
Turkey	1.329	5 033 724	5 033 724	-	1.019	3 859 567	3 859 567	-	-	-	-	-	-	-
Turkmenistan	0.019	71 964	71 964	-	0.026	98 478	98 478	-	-	-	-	-	-	-

Financial report and audited consolidated financial statements for the year ended 31 December 2017

State	2016–17 Assessed Contributions							Amounts due for previous financial periods				Calendar years of Assessment	Total due as at 31.12.2017	
	2016				2017			Balance due as at 31.12.2017	Balance due as at 01.01.2016	Amounts Received or Credited				Balance due as at 31.12.2017
	Assessed Contributions		Amounts Received or Credited		Assessed Contributions	Amounts Received or Credited								
	%	Amount	in 2016	in 2017			%			Amount	in 2017			
Tuvalu	0.001	3 788	3 788	-	0.001	3 788	3 674	114	7 622	7 622	-	-	2017	114
Uganda	0.006	22 726	2	22 724	0.009	34 088	34 088	-	63 310	21 252	42 058	-	-	-
Ukraine ⁽¹⁾	0.099	374 973	374 973	-	0.103	390 123	390 123	-	1 898 831	316 472	316 472	1 265 887	1998-99+2009	1 265 887
United Arab Emirates	0.595	2 253 623	2 253 623	-	0.604	2 287 712	2 287 712	-	-	-	-	-	-	-
United Kingdom	5.182	19 627 356	19 627 356	-	4.465	16 911 645	16 911 645	-	-	-	-	-	-	-
United States	22.000	83 327 255	70 865 957	12 461 298	22.000	83 327 255	37 772	83 289 483	41 850 835	41 850 835	-	-	2017	83 289 483
Uruguay	0.052	196 955	49	196 906	0.079	299 221	299 221	-	-	-	-	-	-	-
Uzbekistan ⁽¹⁾	0.015	56 814	56 814	-	0.023	87 115	87 115	-	1 423 900	74 900	112 000	1 237 000	1998-2014	1 237 000
Vanuatu	0.001	3 788	-	3 788	0.001	3 788	3 183	605	19 549	-	19 549	-	2017	605
Venezuela, Bolivarian Republic of ⁽²⁾	0.627	2 374 827	587	-	0.571	2 162 721	-	4 536 961	4 716 528	1 199 795	-	3 516 733	2014-17	8 053 694
Viet Nam	0.042	159 079	159 079	-	0.058	219 681	219 681	-	-	-	-	-	-	-
Yemen	0.010	37 876	20	-	0.010	37 876	-	75 732	59 567	-	59 567	-	2016-17	75 732
Zambia	0.006	22 726	8	20 862	0.007	26 513	-	28 369	40 257	-	40 257	-	2016-17	28 369
Zimbabwe	0.002	7 575	5	7 570	0.004	15 150	14 703	447	222	-	222	-	2017	447
Total	100.000	378 769 384	339 549 951	17 645 462	100.000	378 760 250	262 899 663	137 434 558	104 843 529	58 991 379	24 523 430	21 328 720		158 763 278
Amounts due by States for prior periods of membership in the ILO:														
Paraguay ⁽³⁾	-	-	-	-	-	-	-	-	245 066	-	-	245 066	1937	245 066
Total - Amounts due by States for prior periods of membership in the ILO									245 066	-	-	245 066		245 066
Amounts due by States when they ceased to be member of the ILO:														
Former Socialist Fed. Rep. of Yugoslavia ⁽⁴⁾	-	-	-	-	-	-	-	-	6 370 623	-	-	6 370 623	1989-2001	6 370 623
Total - Amounts due by States when they ceased to be member of the ILO									6 370 623	-	-	6 370 623		6 370 623
TOTAL	100.000	378 769 384	339 549 951	17 645 462	100.000	378 760 250	262 899 663	137 434 558	111 459 218	58 991 379	24 523 430	27 944 409		165 378 967

(1) Financial arrangements. Member States listed in the following table have financial arrangements for the settlement of arrears of contributions or amounts due in respect of prior periods of membership.

Member State	Session of Conference at which arrangement was approved	
Armenia	93rd	(2005)
Azerbaijan	95th	(2006)
Central African Republic	97th	(2008)
Georgia	93rd	(2005)
Iraq	97th	(2008)
Kazakhstan	88th	(2000)
Kyrgyzstan	106th	(2017)
Moldova, Republic of	93rd	(2005)
Paraguay	102nd	(2013)
Ukraine	99th	(2010)
Uzbekistan	104th	(2015)

(2) Member States which are two years or more in arrears and which have lost the right to vote under the provisions of article 13(4) of the Constitution. The arrears of contributions of these member States equal or exceed the amount of the contributions due from them for the past two full years (2015–16). Each of these member States had therefore lost the right to vote, in accordance with the provisions of article 13(4) of the Constitution of the Organisation.

(3) Paraguay owes CHF245,066 in respect of contributions to the ILO and other League of Nations organizations for the period prior to 1939. The 45th (1961) Session of the ILC decided that these arrears should be cancelled, effective on the date that payment is made of all Paraguay's arrears of contributions due since the date when it rejoined the Organization.

(4) Status of the former Socialist Federal Republic of Yugoslavia. The former Socialist Federal Republic of Yugoslavia was deleted from the list of ILO member States on 24 November 2000.

(5) Include Cook Islands' 2015 and 2016 and Tonga's 2016 contributions of CHF9,134 assessed after the adoption of the budget.

6. Report of the External Auditor to the Governing Body

**On the financial operations of the
International Labour Organization**

for the year ended 31 December 2017



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

To the Governing Body of the International Labour Office:

We have the honor to transmit the Report of the External Auditor on the Financial Operations of the International Labour Organization for the financial year 2017.

Our report, as the External Auditor, contains the results of our audit of the 2017 financial statements, and also our observations and recommendations on the review of the corporate procurement, travel, and programme management of the Organization. We also conducted an audit of three field offices. Value-adding recommendations were communicated and discussed with Management to further enhance efficient and effective management of the Organization.

Our audit was conducted in accordance with the International Standards on Auditing. We addressed the matters relative to the review of the Organization's financial statements that came to our attention during the audit that we believe the Governing Body should be aware of. We will be pleased to elaborate on any of these points during the Governing Body meeting in June 2018.

We wish to express our appreciation for the cooperation and assistance extended to our auditors by the Director-General and his staff, and for the support and interest in our work as External Auditor by the ILO's Governing Body.

Yours sincerely,

(Signed) **Michael G. Aguinaldo**
Chairperson, Commission on Audit, Republic of the Philippines
External Auditor

Quezon City, Philippines
20 April 2018

**Republic of the Philippines
COMMISSION ON AUDIT
Quezon City**



**Report of the External Auditor
to the Governing Body
on the financial operations of the
International Labour Organization**

**For the financial year ended
31 December 2017**

**REPORT OF THE EXTERNAL AUDITOR
TO THE GOVERNING BODY
ON THE FINANCIAL OPERATIONS OF
THE INTERNATIONAL LABOUR ORGANIZATION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

Contents

Executive summary

A. Mandate, scope and methodology

B. Audit results

1. Internal governance positive developments

1.1 Results-based management enhancement

1.2 Internal Control Framework delivery and production of the first statement of internal control

1.3 Risk management reinvigoration

2. Audit of financial statements

3. Programme management – monitoring and reporting

3.1 Evidence-based monitoring

3.2 Programme results reporting

4. Procurement management

4.1 Procurement planning

4.2 Long-term agreement management

4.3 Sustainable procurement

4.4 Observance of procurement rules in field offices

5. Travel management

5.1 Travel planning

5.2 Sustainable travel policy

5.3 Initiation of travel requests

6. Management controls in regional and country offices

6.1 Decent Work Country Programme management

6.2 Development cooperation project management

6.3 Grant management

6.4 External collaboration contracts management

6.5 Human resource management

6.6 Asset management

6.7 Cash management

C. Implementation of external audit recommendations

D. Disclosures by management

E. Acknowledgements

Annex A – Implementation of external audit recommendations

List of abbreviations

CCPD	Cross-cutting policy drivers
CO	Country Office
CO ₂	Carbon dioxide
COA	Commission on Audit
CPO	Country Programme outcome
CWT	Carlson Wagonlit Travel
DC	Development Cooperation
DWCP	Decent Work Country Programme
DWT	Decent Work Team
ERM	Enterprise Risk Management
ESS	Environmental and social safeguards
F&E	Furniture and equipment
GL	General ledger
HLCM	High-level Committee on Management
HQ	Headquarters
HRD	Human Resources Development Department
IAO	Internal Audit and Oversight
ICF	Internal Control Framework
IGDS	Internal Governance Document System
ILO	International Labour Organization
INFOTEC	Information and Technology Management Department
INTOSAI	International Organization of Supreme Audit Institutions
IOAC	Independent Oversight Advisory Committee
IPSAS	International Public Sector Accounting Standards
IRIS	Integrated Resource Information System
ISA	International Standards on Auditing
ISO	International Organization for Standardization
ITC-ILO	International Training Centre of the ILO
ITU	International Telecommunication Union
JIU	Joint Inspection Unit
LTA	Long-term agreement
MOPAN	Multilateral Organization Performance Assessment Network
MPF	Model Policy Framework
OBW	Outcome-based workplan

OCT	Outcome coordinating team
OGA	Oracle Grants Accounting
P&B	Programme and budget
PAR	Performance appraisal reports
PIR	Programme Implementation Report
PROCUREMENT	Procurement Bureau
PROGRAM	Strategic Programming and Management Department
RBM	Results-based management
RO	Regional Office
SHIF	Staff Health Insurance Fund
SIC	Statement of internal control
SM/IM	Strategic Management Implementation Module
SM/IP	Strategic Management Implementation Planning
SM/IR	Strategic Management Implementation Reporting
SM/M	Strategic Management Module
SMART	Specific, measurable, achievable, relevant and time-bound
SOs	Strategic Objectives
TC	Technical cooperation
TR	Travel requests
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNEP	United Nations Environment Programme
UNDP	United Nations Development Programme
UNGM	United Nations Global Marketplace
US\$	US dollar
UW	Unit workplan
WHO	World Health Organization
WMO	World Meteorological Organization

EXECUTIVE SUMMARY

Introduction

This Report of the External Auditor on the audit of the financial statements and operations of the **International Labour Organization (ILO)** is issued pursuant to Paragraph 6 of the Appendix to the Financial Regulations of the ILO, and is transmitted to the Governing Body.

This is the second long-form report to the Governing Body by the Chairperson of the Commission on Audit (COA) of the Republic of the Philippines, under its mandate as the External Auditor for the 75th and 76th financial periods commencing on 1 April 2016 for a period of four years (2016–19), granted by the Governing Body during its 323rd Session in March 2015.

The overall objective of the audit is to provide independent assurance to member States, help enhance transparency and accountability in the Organization, and support the objectives of the Organization's work through the external audit process. We have detailed in this report our observations and provided recommendations to further improve the efficiency and effectiveness of management operations and add value to ILO's governance.

Overall results of the audit

In line with our mandate, we audited the financial statements of ILO in accordance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board. We concluded that the financial statements present fairly, in all material respects, the financial position of the ILO for the financial year ended 31 December 2017, and its financial performance, changes in net assets, cash flows, and comparison of budget and actual amounts, in accordance with the International Public Sector Accounting Standards (IPSAS). As a result, we issued an unmodified audit opinion on the Organization's financial statements for the financial year ended 31 December 2017.

We also concluded that accounting policies were applied on a basis consistent with that of the preceding year, and that the transactions of the ILO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the ILO.

In addition to the audit of financial statements, we also conducted audits on: (a) the ILO Regional Office for Africa (RO–Africa); (b) the ILO Decent Work Team for Eastern and Southern Africa and Country Office for South Africa, Botswana, Lesotho and Swaziland (DWT/CO–Pretoria); and (c) the ILO Country Office for Ethiopia, Djibouti, Somalia, Sudan and South Sudan (CO–Addis Ababa). Likewise, we conducted an audit on the financial statements and operations of the International Training Centre of the ILO (ITC–ILO) in Turin, which is consolidated in the ILO financial statements. For our value-added work, we reviewed procurement, travel and programme management. The results of the audit were communicated to management and are incorporated in this report.

Key audit findings

Internal governance positive developments

- a) The ILO further improved results-based management (RBM) implementation across all offices. We noted a firm commitment by the Organization to this endeavour through the creation of an RBM roadmap for 2018–21, with particular attention given to harmonizing guidance and tools for strategic planning, budgeting, monitoring and reporting, and to improving its results framework. It also published its Internal Control Framework (ICF) and produced the first statement of internal control (SIC) appended to the financial statements. The Enterprise Risk Management (ERM) Framework was updated to incorporate lessons learned and to reflect broader policy developments.

Programme management – monitoring and reporting

- b) The ILO's evidenced-based monitoring needs to progress and to be practised Office-wide through enhancements in the use of the outcome-based workplan (OBW) monitoring plan template. The template in its current state does not include explicit information on data sources, data-collection methods and techniques for collection and analysis, data-collection frequency and assignment of roles that will allow optimal use of programme results information. The OBW review process is not yet interfaced with the Integrated Resource Information System Strategic Management Module (IRIS/SM Module), and there is no facility in the IRIS strategic management implementation reporting (SM/IR) to track and document progress of review and monitoring. In terms of validation of reported results, we noted that the activity is undertaken in different ways by country offices which, according to the outcome coordinating teams, is a result of different levels of understanding of RBM requirements, absence of specialists in the field and/or lack of substantial results information.

Procurement management

- c) The ILO's procurement plans covering major procurement requirements were partially received. However, the timely response from all country offices concerned and development cooperation (DC) projects could be improved and thereafter included in a consolidated annual corporate procurement plan. The monitoring of ILO long-term agreement (LTA) procurement patterns may not have been given the focus and importance that could provide information to facilitate decision-making, specifically contract decisions. The standard terms and conditions applicable to ILO contracts and other documents lack specific and clear provision on environmentally responsible procurement, which somehow affects the sustainability specifications and requirements for potential suppliers to demonstrate compliance with such modalities.

Travel management

- d) The ILO's travel plan is not actually a requirement at the initial stage of the travel management process or its purpose and accountabilities adequately defined in the policy. Reducing the travel carbon footprint (the greenhouse gas emissions associated with travel) needs to be addressed if the Organization wishes to align with one of its adopted principles on environmental sustainability. Deviations from its 14-day lead-time rule for travel request initiation could be addressed by applying appropriate mitigating strategies to ensure that the rate of compliance with the rule is improved.

Operations of regional and country offices

- e) The ILO's regional and country offices need to optimize the performance of supervisory and monitoring control to improve the level of management controls in key business processes and ensure operational efficiency.

Summary of recommendations

We provided recommendations, which are discussed in detail in this report. The main recommendations are as follows:

- a) **ILO ensure that its results monitoring mechanisms are enhanced through the: a) improvement of data collection methodologies; b) production of well-defined evidences out of the data collected as early as the first monitoring exercise to provide better decision base to programme monitors; and optimal use of its information systems to support results monitoring;**
- b) **ILO enhance its data collection and review mechanism on reported results with robust engagements by all those involved in the process; support the exercise with clearer and concrete procedures; and craft evidence-based quality assurance guidance to enable effective validation of reported results;**
- c) **ILO institute a robust monitoring mechanism that drives the need for effective procurement planning and the production of procurement plans including its annual Corporate Procurement Plan to promote better procurement accountability and achieve best value for money and process efficiency;**
- d) **ILO fully leverage the use of its LTAs through the performance of mechanisms to adequately manage its contracts based on well-established policies on procurement planning; use of performance indicators and lessons learned; and market and spend analyses;**
- e) **ILO align more closely to its sustainable procurement commitment through a better-fitted sustainable procurement policy that includes specific and clear provisions: on environmentally-responsible procurement in its standard Terms of Conditions for ILO Contracts; on vendor assessment and evaluation embracing sustainability criteria and specifications; and on sustainable disposal of assets procured;**
- f) **ILO review the causes of deviations on procurement policies and apply appropriate mitigating strategies to address them to ensure that the rate of compliance with the policies is improved thereby enhancing effectiveness of its procurement activities in field offices;**
- g) **ILO clarify the purpose and staff accountability attached to travel planning policy and ensure that travel plan preparation is adequately supported with tools, reviewed and monitored to improve adherence to the requirement and achieve the intended benefits;**

- h) ILO enhance its travel policies and procedures by aligning these closely with the United Nation's Climate Neutral Strategy of 2007 and cultivate a sustainable travel culture through increased awareness to the cause to demonstrate its commitment and contribution to the reduction of UN climate footprint;**
- i) ILO identify the common causes of deviations from its 14-day lead time rule for travel request initiation and apply appropriate mitigating strategies to these to ensure that the rate of compliance with the rule is improved thereby enhancing effectiveness of its official and statutory travels; and**
- j) ILO place more emphasis on accountabilities and responsibilities in delivering management controls in key business processes in regional and country offices, particularly supervisory and monitoring controls, to optimize the performance of these controls and support the overall operating objectives of the offices.**

Implementation of the External Auditor's recommendations in prior years

We noted in our validation of implementation of prior-year audit recommendations that, of the 22 recommendations, five (or 23 per cent) had been fully implemented, two (or 9 per cent) had been implemented on an ongoing basis, six (or 27 per cent) had been partially implemented, and nine (or 41 per cent) were still in the process of implementation. We are satisfied with the progress of implementation of the audit recommendations.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

1. The Commission on Audit is an independent audit body created by the Constitution of the Republic of the Philippines. The 118-year-old supreme audit institution is an active member of the International Organization of Supreme Audit Institutions (INTOSAI) and the United Nations Panel of External Auditors. The Commission on Audit is extensively involved in setting accounting and auditing standards, building capacity and sharing knowledge. It has extensive experience in providing external audit services to international organizations for the past 36 years, 18 years of which as member of the United Nations Board of Auditors.

2. The ILO Governing Body during its 323rd Session in March 2015 appointed the Chairperson of the Commission on Audit of the Republic of the Philippines as External Auditor of the ILO for the 75th and 76th financial periods commencing on 1 April 2016 for a period of four years (2016–19). Chapter IX of the ILO Financial Regulations elaborates on the terms of reference governing external audit. The regulations require the External Auditor to report to the International Labour Conference through the Governing Body on the audit of the annual financial statements and on other information that should be brought to its attention with regard to Article 36, paragraph 2, and the additional terms of reference.

Audit scope and objectives

3. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements, which consist of five statements: (a) statement of financial position, (b) statement of financial performance; (c) statement of changes in net assets; (d) statement of cash flow; and (e) statement of comparison of budget and actual amounts. It also includes an assessment of ILO compliance with the ILO Financial Regulations and legislative authority.

4. The audit was conducted primarily to enable us to form an opinion as to whether the financial statements presented fairly the financial position of the ILO as at 31 December 2017 and the results of its operations, cash flows, and comparison of budget and actual amounts for the financial period in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the ILO Financial Regulations and legislative authority. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent we considered necessary to support our audit opinion.

5. We also carried out a review of ILO operations with regard to Article 36, Paragraph 2, of the Financial Regulations, which requires the External Auditor to make observations with respect to the efficiency of the financial procedures, accounting system, internal financial controls and, in general, the administration and management of the Organization. We focused on areas of fundamental importance to the capability, effective management and reputation of the ILO, in particular corporate travel, procurement and programme management.

6. Overall, the audit intends to provide independent assurance to member States, help increase transparency and accountability in the Organization, and support the objectives of the Organization's work through the external audit process.

Methodology and auditor responsibilities

7. We conducted our audit in accordance with the ISA. These Standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

8. The risk-based audit approach was adopted in the audit of the financial statements. This approach requires conducting a risk assessment of material misstatements at the financial statement and assertion levels, based on an appropriate understanding of the entity and its environment, including its internal controls.

9. The auditor's responsibility is to express an opinion on the financial statements based on an audit. The audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free from material misstatement, including those caused by fraud or error.

10. During the financial year 2017, in addition to the audit of the financial statements, we also conducted audits on: the ILO Regional Office for Africa (RO–Africa), (b) the ILO Decent Work Team for Eastern and Southern Africa and Country Office for South Africa, Botswana, Lesotho and Swaziland (DWT/CO–Pretoria); and (c) the ILO Country Office for Ethiopia, Djibouti, Somalia, Sudan and South Sudan (CO–Addis Ababa). In addition, we conducted an audit on the financial operations of the ITC-ILO in Turin.

11. We coordinated with the ILO Office of Internal Audit and Oversight (IAO) on the planned audit areas to avoid unnecessary duplication of efforts, and to determine the extent of reliance that can be placed on IAO work. We also collaborated with the ILO Governing Body's Independent Oversight Advisory Committee (IOAC) to further enhance our audit work.

12. We continued to report audit results to ILO management through audit observation memorandums and management letters containing detailed observations and recommendations. The practice provides a continuing dialogue with management.

B. AUDIT RESULTS

13. This section of the report discusses our observations on financial and governance matters in line with Article 36, paragraph 2, of the Financial Regulations, which mandated the External Auditor to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the management and operations of the Organization. ILO management was afforded the opportunity to comment on our audit observations. Value-adding recommendations were co-developed and communicated with management to help enhance the efficient and effective management of the Organization.

1. Internal governance positive developments

14. Over the biennium and from the start of our mandate, we consistently noted the ILO's operating philosophy and drive to improve and adapt its ways of working to meet the constantly evolving operating environment. This transformative sense of purpose is underpinned by the Organization's willingness to inculcate a culture of accountability and build work-delivery mechanisms that enable the achievement of its operating objectives and meet stakeholders' expectations. This philosophy is evident in the Director-General's preface to the Programme Implementation Report (PIR) for 2016–17, which affirms that the Organization's work must be measured more in terms of the results produced and not on the resources spent to achieve these. As we align our audits to the values that ILO aspires to produce, we initially examined the fundamental governance arrangements and the mechanisms that support it. Since 2016, we have assessed several internal governance mechanisms that we deemed as important for the ILO, its stakeholders and for oversight bodies such as external audit. The results of our assessments, summarized below, have generally shown very encouraging results and progress.

1.1 Results-based management enhancements

15. Results-based management is applied by the ILO in its programming cycle. It includes programme planning, implementation, reporting and evaluation, as well as the provision of feedback to subsequent programming cycles. Our assessment has identified a need for better results orientation across the Organization, particularly in making it participatory and allowing for a more structured critical-thinking process in the phases of design, implementation, monitoring and evaluation of any intervention that brings forth a result. Since results are supposed to be changes, it is important that the Organization better craft and deliver a change theory across all activities, whether it be in an event, project, programme, policy or strategy. As the pillar of programme delivery in the ILO, we made an assessment in 2016 of the current state of its RBM application in relation to planned results or outcomes as specified in the programme and budget (P&B) that also included the strategies delivered to achieve these results and the resources available to support the endeavour.

16. With the expectation that results orientation and its level of maturity in any organization is directly manifested by how the change theory is created and realized, we determined that the ILO needed to enhance its work planning, monitoring, reporting and learning from results achieved. In more specific terms, we made value propositions on how the Organization could actually ensure that its programme outcomes were aligned with its strategic objectives (SOs) and the outputs at the end of the results chain. We also highlighted the need for the measurement of the ILO's strategic objectives based on assessment of the outcomes and how these outcomes could be crafted based on workplans and the outputs produced. Further, we invited the ILO to focus attention on the harmonization of its RBM policies, tools and application in the programme and budget, Decent Work Country Programme (DWCP) and development cooperation projects, on the improvement of programme overall monitoring systems, mechanisms and tools, including information systems, and on the use of assumptions and risks to improve the quality of its programme results and reports.

17. We are pleased to report that, in 2017, the ILO had recognized the need to further improve RBM implementation across all offices. We also noted a firm commitment by the Organization to this endeavour through the creation of an RBM roadmap for 2018–21, with particular attention given to “harmonizing guidance and tools for strategic planning, budgeting,

monitoring and reporting” and to “improving its results framework”. Our audit follow-up efforts also observed a commitment by the Office in response to the 2016 external audit recommendations on its RBM approach and to the assessment by the Multilateral Organisation Performance Assessment Network (MOPAN), which gave rise to the creation of RBM task teams charged with revising and proposing improvements to the current RBM “approaches, practices and instruments”, commencing in 2018. Our expectations are high on the positive outcomes of this task.

1.2 Internal Control Framework delivery and production of the first statement on internal control

18. The concept of internal control is often described as a summary of smaller systems and processes put in place to mitigate risks and/or a process where control activities within processes are logically embedded and undertaken to achieve an entity’s operating objectives. In whatever form it may take, internal control is always framed in a manner that will make the entity function as expected. In 2016, we observed that, while other governance mechanisms such as accountability and risk management frameworks were present in the Organization, the Internal Control Framework was a virtual one based on financial rules and regulations and other mechanisms and standards. A formally documented and tangible framework did not exist. With the concept of controlling becoming more complex, internal control has to have a clear and well-defined linkage with the other governance mechanisms such as risk management and accountability.

19. During our audit, we described the value that an internal control framework could deliver to the Organization. We emphasized that accountability and risk management were generally manifested in how internal controls were embedded in a process and how a formal framework would provide concrete support to the delivery of ILO governance. While there were other internal governance documents to govern the functioning of internal controls, the majority of these documents only supported the Organization’s first line of defence. Further, we highlighted that the Organization’s Internal Letter of Representation only covered the baseline requirements primarily focused on internal financial controls, which was only one part of internal control. With the internal governance documents independently addressing different levels of internal control, a formal framework would help in clarifying the interrelationships.

20. Consistent with our recommendation, we are pleased to note that, in January 2018, the ILO published its Internal Control Framework. This now defines internal control and its interaction with risk management and accountability as integral parts of the overall internal governance system to ensure all staff have a common understanding of the concept and how it is applied. We also observed that the framework applies the “Three Lines of Defence” model as part of ILO’s control activities and clarifies the roles and responsibilities in the implementation of internal controls. The framework also sets out several principles that serve as parameters for measuring the effectiveness of the Organization’s internal control system. An important additional development is the inclusion of a statement of internal control in the 2017 financial statements. This provides an “Office-wide view of the state of accountability practices and performance” and “an assessment of the Office’s capacity to handle risks”. With these developments, we commend the ILO for crafting an internal control framework that will ensure a more effective strategic management of its embedded controls aligned to its accountability and risk management frameworks and for producing its first statement of internal control.

1.3 Risk management reinvigoration

21. The adoption and embedding of risk management in ILO commenced in 2009 with the issuance of a policy that was expected to “guide risk management in the ILO with a view to achieving a more systematic approach to addressing issues that could affect its ability to achieve its objectives and mission”. While the policy elucidated that risk management was essential for good governance and an integral part of good management practice, its implementation fell short of expectations. During our audit of risk management in a number of regional and country offices during the biennium, we observed that risks were identified arbitrarily, not supported by root causes, and did not relate to mitigating actions linked to the RBM framework. The general observation was that the principles laid out in the policy were not sufficiently adhered to, resulting in the intended value not being delivered. However, we expected this to change and be re-delivered with renewed vigour with the arrival of a dedicated senior risk management officer in late 2016.

22. We noted that, during 2017, material changes took place in the ILO’s approach to risk management and that it was able to produce a variety of guidance documents to support the existing policy. The ERM Framework (March 2015) was updated in January 2018 to incorporate lessons learned and to reflect broader policy developments. Our expectations on risk management within the context of ILO operations are now being addressed by the ILO with the development of new tools and the implementation of a cloud-based risk management platform. Improved risk management could enhance operational efficiency and effectiveness and build stronger trust and confidence with stakeholders. While we plan to conduct new tests on risk management practice in our future audits, we view risk management in ILO, as it now stands, as one that holds much promise, thereby increasing our expectations on the effectiveness of the Organization’s governance.

2. Audit of financial statements

23. We audited the financial statements in accordance with ISA and concluded that the financial statements present fairly, in all material respects, the financial position of ILO for the financial year ended 31 December 2017, results of its financial performance, changes in net assets/equity, cash flows, and comparison of budget and actual amounts in accordance with IPSAS. As such, we issued an unmodified opinion on the ILO’s financial statements. The statements audited were as follows:

- a) Statement I. Statement of financial position;
- b) Statement II. Statement of financial performance;
- c) Statement III. Statement of changes in net assets/equity;
- d) Statement IV. Statement of cash flow; and
- e) Statement V. Statement of comparison of budget and actual amounts.

24. In addition, we concluded that the accounting policies set out in Note 2 to the financial statements were applied on a basis consistent with that of the preceding year. Further, we concluded that the transactions of ILO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the ILO.

25. We appreciate the efforts made by management to address a number of recommendations issued in the course of our audit of the ILO 2017 financial statements in order to present fairly the balances of the affected accounts and improve the presentation and disclosures in compliance with IPSAS.

3. Programme management – monitoring and reporting

26. The catalytic value of programme monitoring is twofold – implementation monitoring and results monitoring. Implementation monitoring provides data on administrative operations and immediate issues needing interventions to achieve better efficiency, while results monitoring determines a deeper and wider set of interventions and tactics to produce results in support of programme delivery. The relationships of programme results in an RBM approach are cyclical and iterative, with fact checks and constant monitoring of results achieved in relation to what was planned within the established monitoring and reporting mechanisms. Based on these, interim and end-of-period analysis of lessons learned, adjustments and reporting are carried out to enhance the achievement of expected results. With the establishment of the RBM task force, there is an increased expectation of enhanced and transformed work practices, changed cultures and better results reporting by the Office. This encouraging action and proactive stance taken by the ILO to address the concerns raised in several external assessments has provided the Office with the right impetus to enhance its programme results monitoring and reporting functions, which has also laid down the context of our assessment, with the following results.

3.1 Evidence-based monitoring

27. Results monitoring is an important variable in the “management-for-results” equation. This is evident when programme performance is measured either in interim or at end-of-period reporting. However, results monitoring must deal with evidence of implementation and with results on performance, where data evidencing the results are systematically collected over the lifetime of a programme, based on planned indicators. In this sense, evidence-based monitoring becomes crucial and an indispensable activity within an RBM scenario, and directly supports evidence-based reporting. We determined that evidenced-based monitoring needs to progress in the ILO and be an Office-wide practice. The outcome-based workplan monitoring plan template used for both the global and country level in their current states have to be enhanced to allow for the monitoring activities to extract the necessary evidence in support of results identified. The monitoring plan has to include data sources, data-collection methods, collection and analysis techniques, data-collection frequency and assignment of roles and responsibilities to ensure that results evidence is emphasized.

28. Further, we gathered that some outcome coordinating teams merely relied upon the inputs of the country offices and decent work teams, and that some worked from the inputs in the IRIS strategic management implementation reporting (SM/IR) version 1 and would be less likely to require hard evidence for the reported results. While we observed that some outcome coordinating team leads required evidence to support reported results, the same could not be said of the other outcome coordinating teams. In the area of information-system support to evidentiary monitoring, we observed that the outcome-based workplan review process is not interfaced with the IRIS/SM Module and that the process is conducted “offline” through different modes of communication. It also surfaced from our verification with the Information and Technology Management Department (INFOTEC) that there is no current facility to track changes prior to the creation of a new version of the IRIS SM/IR, losing an all-important results “audit trail”.

29. In sum, given the complexity of programme results monitoring, a monitoring plan, replete with data-collection factors, must frame an effective evidence-based system of monitoring of programme results, ably supported by an information system that facilitates results monitoring requirements, to guarantee better programme management decisions.

30. **We recommended that ILO, moving forward, ensure that its results monitoring mechanisms are enhanced through the:**

- a. improvement of data collection methodologies by including additional parameters in its OBW and UW on data collection methods, data sources, frequency of collection, among others to provide more compelling evidence of programme results;**
- b. production of well-defined evidences out of the data collected as early as the first monitoring exercise to provide better decision base to programme monitors; and**
- c. optimal use of its information systems to support results monitoring through system interfaces to fully document the review and results monitoring process in a given programming cycle.**

31. **ILO response.** The Office is encouraged by the positive assessment of action undertaken since 2016 to enhance RBM processes. It recognizes that further improvements are required and for this reason established the RBM task force to address, inter alia, the existing gaps in monitoring and reporting. Work of the task force will include a revision of existing templates, processes and systems to ensure better documentation of progress towards results and enhanced coordination between monitoring efforts at project, country, regional and global levels. Given the potential financial investment that could be required, the extent of improvements to be implemented will be adapted to the level of available resources.

3.2 Programme results reporting

32. The need to retain the agility and adaptability of the RBM process and systems to the evolving needs and conditions, particularly at regional and country office levels, has to be on the agenda. During the audit, we noted that guidance on results reporting for the 2016–17 Programme Implementation Report included an emphasis on the implementation report being both an accountability instrument and a contribution to organizational learning. Based on the 2016–17 Programme Implementation Report, we are pleased to note that the results and performance statements were stated in a coherent manner and the outputs directly related to the Organization's contributions. However, the results of our survey among the outcome coordinating teams still presented several challenges, particularly with regard to the information coming from country offices. We gathered from the outcome coordinating teams, and from those charged with results reporting at the country level, that challenges and suggestions included non-acceptance of achievements and the need for more constructive and value-adding outcome-based workplan reviews, a more holistic way of looking at the complexity of issues, better modes of communication and more involvement of technical specialists in the field in the review and validation process.

33. Further, we determined that the performance of validation processes on the reported results included in the IRIS SM/IR were undertaken in different ways by country offices, with one indicating that it is not normally required under the IRIS SM/IR, although validation of what is reported is always available at the policy level. Another survey respondent stated that validation is basically carried out via email to ensure confirmation of reported results, while another answered in the negative. The outcome coordinating teams emphasized that the level of understanding of RBM requirements varies, hence the impact on quality reporting. The outcome coordinating teams also highlighted that the main challenge was the absence of specialists in the field who can follow up on the implementation process and the lack of substantial information to make a validation. While the responses to our survey can be considered as merely perceptions, they must be taken within the context of enhancing further the results reporting process. They all point to the need for a better data-collection process and collaboration as the results are escalated to the corporate level. The fundamental purpose is to allow the efficient roll-up of reliable data with the intention of triangulating different perspectives of the outputs/outcomes as results, and comprehensibly presenting these results to produce a report that reflects a clear escalation process. It is essential to have a stronger and clearer results reporting mechanism with better evidence to support validations and assessments.

34. **We recommended that ILO, moving forward, enhance its data collection and review mechanism on reported results with robust engagements by all those involved in the process; support the exercise with clearer and concrete procedures to ensure better alignment of activities and collaboration; and craft evidence-based quality assurance guidance to enable effective validation of reported results.**

35. **ILO response.** The Office is committed to pursuing current efforts to improve performance reporting, acknowledging its critical importance for results-based management and accountability. This recommendation will be considered in the context of the Office work towards the enhancement of monitoring templates, processes and systems, so as to facilitate prompt evidence-based validation of results. In the context of the preparation of the Programme Implementation Report 2018–19, the Office will develop procedures and guidelines on data collection and validation, including clear roles and responsibilities of country offices, regional offices, outcome coordinating teams and relevant departments at headquarters.

4. Procurement management

36. In general, procurement is both a strategic function and a process. As a strategic function, effective procurement means that internal governance policies and the necessary integrity indicators are in place. For procurement to be effective as a process, it has to be accorded with appropriate controls that are carefully designed and work as expected. For 2017, the ILO had registered procurement expenditure totalling US\$91.69 million, with procurement of services taking the bigger share of US\$80.44 million. Given the amount of the Organization's fiscal resources expended through procurement activities, obtaining optimal results on a process that can be complex at times deserves to be at the top of the corporate procurement accountability agenda. Our audit of ILO procurement was also delivered along these parameters, with particular focus on policies, protocols and critical procedures that shape the current corporate procurement environment, the results of which are discussed below.

4.1 Procurement planning

37. The ultimate goal of procurement planning, as emphasized in the UN Procurement Practitioners Handbook is the “coordinated and integrated action to fulfil a need for goods, services or works in a timely manner and at a reasonable cost”. Early and accurate planning is essential to avoid last-minute, emergency or ill-planned procurement that impedes open, efficient and effective, and consequently, transparent procurement. In addition, most potential savings in the procurement process are achieved at the planning stage. Even in emergencies, proactive measures can be taken to ensure contingency planning and be better prepared to address upcoming procurement requests. To achieve all of these, ILO procurement guidelines clearly lay out the requisites of procurement planning, which are expanded through Internal Governance Document System (IGDS) Office Directive No. 239 (Version 3), where procurement plans are required to support the budgetary requirements of succeeding periods and anticipate other requirements.

38. We observed that procurement planning had been a challenge to the ILO. For 2017, we noted that procurement plans covering major procurement requirements (namely all purchases valued at more than US\$50,000) were partially received. However, the response from all offices concerned and development cooperation projects could be more timely improved and thereafter included in a consolidated annual corporate procurement plan. At headquarters (HQ), we determined that 13 procurement plans had been prepared and submitted, with only ten of which prepared using the prescribed template and the other three using a different format.

39. Without procurement planning and its eventual product – the procurement plan – the Office would be denied the ability to estimate the lead time required for each step of the procurement cycle. Moreover, with partial and incomplete procurement planning, especially at a consolidated level, there may be risks in producing clear deliverables and outputs, in assigning specific roles to manoeuvre scarce resources, in directing accountability to specific process owners and in using other resources such as the staff and tools. Essentially, partial and incomplete procurement plans may weaken procurement accountability, resulting in restricted monitoring activities that limit procurement manoeuvrability and eventually result in unwarranted costs.

40. **We recommended that ILO institute a robust monitoring mechanism that drives the need for effective procurement planning and the production of procurement plans including its annual Corporate Procurement Plan to promote better procurement accountability and achieve best value for money and process efficiency.**

41. **ILO response.** The ILO endorses the general approach set out in the recommendation. During the period 2009–11, the annual submission of procurement plans for purchases with an estimated value of over US\$30,000 (increased to US\$50,000 in 2017) became a formal requirement. Office procedures also require that, irrespective of the donor, a draft procurement plan be prepared and included in each project document submitted for appraisal. The Office considers that, over the years since their introduction, the timely and proper preparation of procurement plans has been satisfactory. It is estimated that more than 90 per cent of ILO procurement volume is covered by procurement plans. At headquarters, procurement plans for departments with higher volumes of procurement activity are also updated through periodic meetings between the Procurement Bureau (PROCUREMENT) and the relevant departments. Finally, the Office is currently assessing the feasibility of enhancing the use of an existing procurement tool to enable the consolidation of individual procurement plans into an Office-wide plan.

4.2 Long-term agreement management

42. As a form of procurement contract used by the ILO for recurring procurement, a long-term agreement (LTA) provides an advantage to the Office by securing competitive prices, but an LTA requires intensive monitoring. The United Nations Development Programme (UNDP) procurement guidelines clarified that, while an LTA can reduce procurement transaction costs, promote consistency in quality and standardization of requirements across offices, and reduce delivery times, it also has a downside. The use of an LTA can lead to high dependency on vendors, allow the vendor to hedge prices and peg them at higher rates and can sometimes cease being the source of best value for money following the entry of a better supplier or when the commodity prices dip within the period covered by the LTA.

43. Our review of LTA management in the Organization yielded a lack of strategic procurement planning and risk assessment in support of LTAs. In addition, we determined that monitoring of LTA procurement patterns may not have been given the focus and importance that could provide information to facilitate decision-making, specifically contract decisions. We were informed that a historical spend analysis was conducted on some of the headquarters' LTAs, which resulted in an innovative and collaborative approach. To reinforce the current activity, continuous monitoring of LTA contracts, supported by the institution of a corporate procurement plan, could enhance the benefits that could be derived from LTAs and eventually lead to the achievement of the best-value-for-money procurement in the ILO.

44. With the unique characteristics of an LTA, Organization-wide application is vital, which is consistently established based on proper procurement analysis, forecasting, planning and strategy development and risk management. This is to strike a good balance between the advantages and disadvantages and still afford best value for money for an organization. Essentially, the use of LTAs becomes a sourcing strategy to leverage positive procurement results but, once this strategy is adopted, mechanisms have to be in place Organization-wide to manage it appropriately. In the absence of such, there could be the possible unnecessary use, or misuse or wrong choice of, LTAs, which would result in inefficiencies and even missed opportunities.

45. **We recommended that ILO fully leverage the use of its LTAs through the performance of mechanisms to adequately manage its contracts based on well-established policies on procurement planning; consistent use of performance indicators and lessons learned; and market and spend analyses.**

46. **ILO response:** The Office endorses the general approach set out in the recommendation. The Office has been, and continues to be, a strong proponent of using, when justified by business needs and best value for money, LTAs that result from its own tenders or have been concluded through collaborative procurement interaction with other UN agencies. Whenever it was considered appropriate, the ILO has deployed LTAs with an aim to simplify procurement processes, benefit from economies of scale, improve productivity and increase efficiency. LTAs, which have been put in place either on the basis of ILO tenders or other United Nations forms of collaborative procurement initiatives, are time bound and subject to periodic re-tendering to ensure the competitiveness of their contractual conditions. The Office has finalized the implementation of a contract management module within the existing ILO e-tendering system to enhance monitoring and managing major ILO contracts.

4.3 Sustainable procurement

47. The ILO Procurement Manual defines sustainable procurement as “an acquisition process whereby organizations meet their requirements for goods and services in a way that achieves value for money on a ‘whole life-cycle’ basis”. We noted that ILO had theoretically shaped itself to conform to one of the thematic priorities of the Procurement Network of the UN High-level Committee on Management (HLCM) and adopted guidelines on sustainable procurement as part of its Procurement Manual. The Office added that it had provided a major contribution to the development of the said guidelines. The ILO Guide to Sustainable Procurement emphasizes the commitment of the Organization to sustainable procurement, as it provides for guidelines to integrate social and environmental requirements into the end-to-end process of procurement.

48. Our analysis of the actual application of the organizational guidelines, however, showed that the ILO partially implemented the said guidelines. We observed that the standard terms and conditions applicable to ILO contracts and other documents lacked specific and clear provision on environmentally responsible procurement, which somehow affects the sustainability specifications and requirements for potential suppliers to demonstrate compliance with such modalities. As regards the ILO Guide to Sustainable Procurement, we noted that the means and timing of disposal of an asset needs to be considered in the procurement process. We also determined that the criteria or parameters in relation to such requirements were broad, and to some extent incomplete; the criteria merely referred to the UN Supplier Code of Conduct and International Organization for Standardization’s ISO 14000. With these, sustainability considerations are lacking in the terms of conditions for ILO contracts, assessment and evaluation criteria, and disposal plans of purchased assets.

49. Management commented that the full development of the comprehensive ILO sustainable procurement policy is pending and the work is currently being undertaken by the Office’s task force on environmental and social safeguards. The task force is expected to draft the related IGDS Directive on the ILO environmental and social safeguards framework, which will allow all departments concerned to align their respective policies with that framework. With the new framework, ILO departments are expected to contribute to the achievement of a harmonized strategy towards sustainable procurement. A good example of this would be the consideration of a disposal plan even at the initial stage of procurement, which primarily involved asset management under the responsibilities of other departments, and not purely the Procurement Bureau.

50. As a tributary of procurement governance, the sustainable procurement strategy enables the ILO to establish the most optimal procurement structure, processes and skills and programmes and initiatives, and to inculcate value. As such, the Organization’s sustainable procurement capabilities have to be bolstered and manifested at the ground level, on how processes must behave, how related performance is measured and how quality decisions flow. However, these can only be delivered with clear policies and guidance supported by adherence to the commitment as evidenced in the actual procurement delivery. ILO must see an opportunity to improve along this area.

51. **We recommended that ILO align more closely to its sustainable procurement commitment through a better-fitted sustainable procurement policy that includes specific and clear provisions: on environmentally-responsible procurement in its standard Terms of Conditions for ILO Contracts; on vendor assessment and evaluation embracing sustainability criteria and specifications; and on sustainable disposal of assets procured.**

52. **ILO response:** The Office takes note of this recommendation and advises that the terms and conditions applicable to ILO contracts contain several provisions strengthening social and environmental sustainability in the acquisition of goods and services, in particular relating to labour practices compliant with ILO Conventions, but also in respect to environmental provisions. Any refusal by a bidder to comply with the labour clause would render that bidder ineligible. A review has been initiated of tender templates to ensure that environmental criteria are specifically included as a standard item for the evaluation of tenders. The forthcoming publication of the Office Directive on environmental and social safeguards will provide a foundation for the development of a comprehensive ILO sustainable procurement policy. In the meantime, the Office continues its active participation in the work of the HLCM Procurement Network's working group on sustainable procurement, in order to identify and disseminate across the UN system the best practices in the area of sustainable procurement.

4.4 Observance of procurement rules in field offices

53. We observed that the field offices could address the noted gaps of delayed preparation and absence of annual procurement plans, including those for technical cooperation (TC) projects. Further, we noted that one office could consider its adherence to the requirement for "three responsive quotations" in some of its procurement transactions, while some purchase orders in another office could be issued with corresponding purchase requisitions. We also noted in another office the need to improve on procurement contract administration to enhance the evaluation of its vendors' performance. It can be deduced from the audit results that management controls along the procurement process of the offices have to be better monitored and reviewed for improved efficiency and achievement of the intended value for money.

54. **We recommended that ILO review the causes of deviations on procurement policies and apply appropriate mitigating strategies to address them to ensure that the rate of compliance with the policies is improved thereby enhancing effectiveness of its procurement activities in field offices.**

55. **ILO response.** The Office agrees with the recommendation. Corrective measures have already been taken in the offices audited where deficiencies were observed. One of the key mitigation measures deployed more generally is the procurement staff development initiative, comprising a set of face-to-face workshops, online tools and webinars on procurement matters, dedicated to ILO staff in the field. These workshops are conducted throughout the year in the regions to disseminate knowledge and best practice in procurement activity.

5. Travel management

56. In pursuit of its mandate, travel in the ILO is undertaken by its staff and delegates to accomplish official business or as a staff entitlement, as authorized by its rules and regulations. Official and statutory travel in the ILO are fully covered by its funds; consolidated travel expenditure for 2017 amounted to US\$25,739,700. In keeping with the Organization's commitment to transparency and accountability, it is expected that travel undertaken obtains the best value for money and preserves the interests of the Organization at all times. For 2017, we conducted an audit of travel management at ILO headquarters, as well as in one regional office and two country offices, the results of which are presented in the following paragraphs.

5.1 Travel planning

57. Generally, a travel plan is a package of coordinated actions to encourage efficient travel, provide information on how much in the way of resources the Organization has to commit to travel, and serves as a management tool for ensuring accountability. At the initial stage of the travel management process, a travel plan becomes a control mechanism to determine the necessity of the travel to be undertaken, including cost considerations and its contribution to the achievement of an entity's objectives. Aligned to these, the ILO also recognizes the importance of travel planning as highlighted in IGDS Directive No. 437 (Version 2), where it provides guidance for the preparation and use of a quarterly travel plan, particularly for staff travelling on official business.

58. We determined, however, that a travel plan is not actually a requirement at the initial stage of the travel management process, nor is its purpose and accountabilities adequately defined in the policy. We were informed that travel planning is an independent activity of each ILO department at headquarters and its monitoring is likewise carried out at the level of the department/unit, and that no standard travel plan format or template had been prescribed. We also noted that a travel plan was mainly used by each department for fund monitoring and that travel monitoring is being made on the basis of travel requests, to the exclusion of what was actually planned. A similar situation was noted in our audit of the DWT/CO–Pretoria, South Africa, where some decent work technical support team units did not prepare their respective travel plans. For those that did prepare their own, we identified that the travel plans were not updated and lacked the necessary details such as travel objectives and other required specificities supporting the defined action programme that would allow for better-informed decisions and review.

59. The need for a travel plan, as we determined, does not only relate to provision of data that will support a decision on how much in resources will be committed, but also to justify that the travel is indeed for a recognizable contribution to the fulfilment of the ILO's mandate and objectives. The value of a travel plan is made even more apparent when it is used to manage travel costs, due to its inherent volatility in relation to time. A travel plan also provides an opportunity for managers to determine the travel value as it relates to the programme results to be achieved. With the travel planning policy provided in its rules and regulations, ILO has to reap its intended benefits by ensuring that a travel plan, being an accountability document, is made part in the overall management of its official and statutory travel and with its purpose formally clarified.

60. **We recommended that ILO clarify the purpose and staff accountability attached to travel planning policy and ensure that travel plan preparation is adequately supported with tools, reviewed and monitored to improve adherence to the requirement and achieve the intended benefits.**

61. **ILO response.** Management recognizes the importance of travel planning as one of the means to ensuring achievement of work objectives and to monitor efficient resource utilization. Due to the diverse operational needs of each department and office, flexibility is available to determine the appropriate format and the use made of those plans. The Office travel policy defines travel planning as a preparatory tool rather than a control process or an accountability measure, although in some cases it is used as part of the approval mechanism. The Organization, accordingly, has put more emphasis on ensuring that the final travel authorization which creates the financial obligation is correct and complies with Office policies, contributes to the fulfilment of the ILO's mandate and is accounted for in a mission report. As recommended by the External Auditor, the Office will issue an internal governance document clarifying the purpose of the travel planning policy.

5.2 Sustainable travel policy and procedures

62. The 2007 UN Climate Neutral Strategy committed all UN system organizations to measure their carbon footprint and reduce greenhouse gas emissions as much as possible. In order to align with the UN strategy, the ILO had incorporated in their travel policy the basic approaches for sustainable travel, which includes the use of more efficient modes of travel when appropriate. With the recent adoption of the sustainable travel policy, an important step has to be taken for it to be communicated effectively. To achieve this, at least two components are considered in accord with United Nations Environment Programme (UNEP) requirements on awareness and training and making the travel carbon footprint for each staff member visible. We noted that the ILO has been producing greenhouse gas inventories since 2008. Moreover, our scrutiny of the contract with Carlson Wagonlit Travel, the ILO's travel service provider at headquarters, revealed that there are provisions for quarterly reporting regarding the steps taken to protect the environment, including airline emissions reporting.

63. However, reducing the travel carbon footprint (the greenhouse gas emissions associated with travel) needs to be addressed if the Organization wishes to align with one of its adopted principles on environmental sustainability, which is, "monitor its environmental performance, seeking continuous improvement". The reporting on greenhouse gas emissions should at least include the corresponding carbon dioxide (CO₂) reduction strategy to underscore the relevance of the reports in attaining the Organization's targets in the reduction of CO₂. The objective is both to be able to track and account on how travel patterns evolve as a result of the travel policy, and to identify additional opportunities to reduce emissions of CO₂ from travel. Although stressing the importance of using alternatives to travel – for example, videoconferencing, Skype or web conferences – we noted that a strategy on reducing CO₂ for travel was not mentioned in IGDS Directive No. 437. This diminishes the Organization's commitment to making its operations and travel activities climate neutral as part of its support to the Strategic Plan for Sustainability Management in the United Nations and in compliance with the 2007 UN Climate Neutral Strategy, targeted to be achieved in 2020.

64. ILO informed us that it does not have emission reduction targets, but does have commitments to reduce its emissions and other environmental impacts as reflected in the Environmental Sustainability Action Plan, which is a framework for implementing the ILO environmental policy. Further, we noted that the Organization had recently taken a concrete step to increase awareness through its internal newsletters. But more than this, it has to consider ways to reduce its travel carbon footprint or the CO₂ emissions specifically for travel. Awareness on the pressing issue of global climate change is an imperative measure.

65. ILO did recognize the importance of applying environmental strategies and procedures in line with the UN approved strategy for a climate neutral United Nations. However, we were informed that sustainability policies may contradict other elements of the Office's travel policy and procedures since sustainable travel is often not the most cost-efficient form of travel. Also, we were informed that the current travel policy resulted from intensive consultations and any further change to travel entitlements – for example, from Business to Premium Economy class – would require further rounds of negotiation with the constituents and the Staff Union. Nevertheless, even if we align with the parameters defined by the ILO on travel policy development, the ongoing information dissemination on the new travel policy, incorporating awareness for sustainable travel, is timely. Building Capacity and conducting an awareness campaign on the role of staff in carbon footprint reduction could start a new travel culture and satisfy the overall objectives of the Organization on environmental sustainability.

66. **We recommended that ILO enhance its travel policies and procedures by aligning these closely with the United Nation's Climate Neutral Strategy of 2007 and cultivate a sustainable travel culture through increased awareness to the cause to demonstrate its commitment and contribution to the reduction of UN climate footprint.**

67. **ILO response:** ILO management recognizes the importance of applying environmental strategies and procedures in line with the UN approved strategy for a climate neutral United Nations. The Office travel policies clearly require the consideration of alternatives to travel and encourage the use of more sustainable options where possible, such as trains for shorter trips and videoconferences. All itinerary proposals prepared by the in-house travel agent disclose CO₂ emission footprints. The Office will prepare a guidance note to all staff in order to increase awareness of CO₂ factors related to travel. When assessing travel proposals, an appropriate balance will always be sought between sustainability considerations, effective communications and meeting forums and budgetary impact.

5.3 Initiation of travel requests

68. It is emphasized in IGDS Directive No. 437 that advanced planning is one of the most effective methods to enable travel to be undertaken successfully, and at minimal cost. In the same guidance, managers are made accountable for ensuring that the travel is registered when possible in travel plans that must be approved by senior management as part of the workplan approval process. These requirements are also reflected in another procedure within the same guidance where the organizational unit is made responsible for initiating a travel request/authorization at least 14 days in advance. On the basis of these requirements, we have reviewed the travel initiation processes in two country offices and noted cases of non-compliance.

69. We observed that few travel requests were authorized more than 14 days in advance, as required by Office policy. Management explained that the required date for submission of a travel request may not be followed due to the exigency or urgency of the travel. However, we found no evidence in the travel request as regards the exigency or emergency nature of the travel as stated.

70. The management of official and statutory staff travel is ably supported by IGDS Directive No. 437 in terms of providing enough lead time before a travel transaction is even authorized. It has to be recognized that these types of travel undergo transaction processing that pass through several controls to ensure that the objectives of such travel will be attained. One of these is travel request initiation which, when completed within the required time frame, will afford a more effective management decision to be delivered by the approver and even save costs for the Organization. The high rate of deviation from the parameter set by ILO in this instance warrants closer attention and monitoring.

71. **We recommended that ILO identify the common causes of deviations from its 14-day lead time rule for travel request initiation and apply appropriate mitigating strategies to these to ensure that the rate of compliance with the rule is improved thereby enhancing effectiveness of its official and statutory travels.**

72. **ILO response:** ILO recognizes the deviations from its 14-day advanced booking procedure, mostly in travel preparations performed in the field. While deviations will often be required due to exigencies of service, in general, regular planned travel within the field structure respects the 14-day rule. There are significant requests for project assistance from constituents and partners where shorter time frames are frequently involved due to the need to accommodate conflicting schedules. Such requests are considered on a case-by-case basis, including a review of alternative means of delivering the requested assistance. With respect to the region referred to in these observations, instructions have been communicated to all directors reminding them of the need for vigilance in complying with the Office's travel policies and appropriate documentation of any exceptions. Notwithstanding this preliminary review, the Office will undertake a wider review across all regions to identify common causes and whether mitigating strategies can be implemented to ensure that travel is being undertaken in the most efficient and effective manner.

6. Management controls in regional and country offices

73. For the financial year 2017, we audited: (a) the ILO Regional Office for Africa (RO–Africa); (b) the ILO Decent Work Team for Eastern and Southern Africa and Country Office for South Africa, Botswana, Lesotho and Swaziland (DWT/CO–Pretoria); and (c) the ILO Country Office for Ethiopia, Djibouti, Somalia, Sudan and South Sudan (CO–Addis Ababa). Our audits were carried out primarily to determine the sufficiency of delivery of frontline controls in these offices to ensure operational efficiency and effectiveness, compliance with policies and procedures, and the overall functioning of management controls along several operational areas, the results of which were communicated to the heads of the offices through a management letter.

74. The offices audited acknowledged the significance of the audit recommendations in critical business processes reviewed, as they demonstrated support and commitment to putting in place the opportunities raised in the management letters to improve operational efficiency. As at 30 March 2018, they have implemented most of the recommendations, with RO–Africa implementing 80 per cent of the recommendations (8 out of 10), CO–Addis Ababa implementing 68 per cent (13 out of 19) and DWT/CO–Pretoria implementing 95 per cent (20 out of 21). The risks identified during the interim audit will have been addressed with the implementation of the audit recommendations. We recognize management's efforts and commitment in implementing the recommendations. With the prompt action taken by management and with the rollout of IRIS, the issues noted may be fully addressed and we look forward to a more consistent application of control procedures and improved compliance with ILO's rules and regulations. The improvement opportunities noted during the interim audit in November 2017 are summarized as follows:

6.1 Decent Work Country Programme management

75. An effective monitoring activity could be put in place to manage delayed project deliveries and the under-achievement of some expected results in terms of project outputs. In the area of results-based management, some expected outcomes could be stated in RBM terms, project baselines, targets, indicators and project milestones could be established, and workplans prepared could be aligned with the RBM format. With the noted gaps, there is therefore a need for the offices to more closely monitor their programme/project deliveries and enhance the RBM capabilities of its staff and contribute to the improvement of results culture within the Organization.

6.2 Development cooperation project management

76. The low project delivery rates in two offices should be improved, as could the consistent appraisal of project documents prior to their approval and the identification of specific targets during the project design phase. In another office, we determined that monitoring of expenditures corresponding to budget-line allocation could be enhanced and one financially closed project with an outstanding final surplus balance could be reviewed. In terms of programme results management, we noted that the RBM criteria for outcome and output statements could be applied and the logical framework for some projects showed assumptions but without the associated risks. Thus, there is a need for the offices to appropriately monitor their project deliveries and closure, enhance project design and the overall delivery of RBM in their projects in order to also contribute to the further improvement of results accountability.

6.3 Grant management

77. We observed inconsistencies in the implementation and management of grant agreements in the offices audited. Due to the risks inherent to this kind of financial modality in delivering technical assistance where the Organization does not have full control over its delivery, more effective and consistent supervision is required.

6.4 External collaboration contracts management

78. The offices could improve their compliance with relevant rules and regulations; in other words, update the roster of external collaborators to enhance the efficiency and effectiveness of their selection process, and prepare a contract checklist before the external collaboration contract is approved. The expected contributions by the external collaborators to the achievement of planned results within a given project drive the need for the offices to be more effective in monitoring this kind of contract delivery.

6.5 Human resource management

79. The performance appraisal report output statements should be aligned to the SMART criteria. In two offices, performance appraisal forms were not completed within the prescribed period. The significance of the efficient and effective management of performance appraisals of ILO staff is twofold: to effectively rate the staff performance; and to determine the results contributed to by the staff. This means that if the performance appraisal reports are RBM-compliant and/or delivered on a timely basis, two critical management responsibilities can be exercised.

6.6 Asset management

80. We noted inconsistent and incomplete asset registers. Inconsistencies related to the recording of low-value but sensitive items, the recording of items purchased with extra-budgetary funds and the attribution of items to specified officials. The observations raised in this area all relate to a key responsibility of the Organization's staff: the safekeeping and responsible use of its information and resources.

6.7 Cash management

81. Controls over cash could be strengthened in the areas of cash advances, maintenance of cash records and in the segregation of incompatible duties. In one office, its operating cash advance was not properly documented, approved or recorded on a timely basis. There were significant delays in the preparation of bank reconciliation reports noted in another office. Petty cash management procedures in another office needed to be redesigned to conform to local banking practice, as these procedures fell outside the prescribed ILO parameters. Considering the inherent vulnerability of cash to loss, it is vital that its management is well-controlled and compliant with ILO rules and regulations. It is equally important that the supervision and review of cash management activities are made more effective to ensure the immediate resolution of gaps such as those observed during our field audits.

82. The results of our audits of the offices provided clarity on operational controls that needed further enhancements. With reference to the Organization's Internal Control Framework of 2018, two main principles for internal control effectiveness need to be emphasized at the frontline, which is the Organization's first line of defence. Frontline control owners have to be aware of their internal control responsibilities and that these activities have to be delivered to address risks to the achievement of the offices' operating objectives. As process owners that manage frontline risks and controls, it is imperative that they ensure control activities function as expected and that supervisory and monitoring controls add value to the functioning of the Organization's first line of defence.

83. We recommended that ILO place more emphasis on accountabilities and responsibilities in delivering management controls in key business processes in regional and country offices, particularly supervisory and monitoring controls, to optimize the performance of these controls and support the overall operating objectives of the offices.

84. **ILO response:** The Office notes the gaps in procedure and recommendations made during the field audit work and has immediately implemented actions to address the most urgent. Implementation of other recommendations is in progress. Completion of the rollout of IRIS during the 2018–19 biennium will significantly enhance oversight and accountability capacities. In addition, the introduction of the internal letter of representation procedure at the end of 2017 has been an important development in improving the internal control and accountability framework, serving as both a pedagogical and feedback mechanism.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

85. We validated the implementation of external audit recommendations contained in prior years' audit reports. We noted that of the 22 recommendations, five (or 23 per cent) had been fully implemented, two (or 9 per cent) had been implemented on an ongoing basis, six (or 27 per cent) had been partially implemented, and nine (or 41 per cent) are still in the process of implementation. Annex A presents the detailed analysis of the implementation of the recommendations. We encourage the ILO to prioritize full implementation of the audit recommendations to further improve the administration and governance of the Organization.

D. DISCLOSURES BY MANAGEMENT

86. **Write-off:** Management reported that, in accordance with Article 33 of the Financial Regulations, a total of US\$173,988 in 2017 (US\$221,907 in 2016) were approved for write-off by the Treasurer. We noted that the appropriate procedures required under the Financial Regulations for the write-off were observed.

87. **Ex-gratia payment:** In accordance with Article 32 of the Financial Regulations, no extra-gratia payments were made in 2017 (US\$13,413.34 in 2016).

88. **Cases of fraud and presumptive fraud:** We noted an increase in reported cases of fraud or presumptive fraud to 19 in 2017 (12 cases in 2016). The majority of these cases involve fraudulent claims by staff members (involving nine cases). Other cases involved: (a) project/programme implementation fraud – three cases; (b) unauthorized outside activity – three cases; (c) SHIF claim – one case; (d) fraud committed by implementing partner – one case; (e) fraudulent award of contract – one case; and (f) unethical solicitation – one case. Seven of these cases have been closed after conducting investigations, four were sent to the Accountability Committee, six were under investigation by the Office of Internal Audit and Oversight (IAO), two of which were already concluded with reports pending, and two were being investigated locally under IAO supervision. Of those closed after conducting an investigation (seven cases), only one was substantiated and the others were closed due to unsubstantiated allegations.

89. We are delighted to note that the ILO Anti-fraud and anti-corruption policy, IGDS Directive No. 69, was recently updated in 19 October 2017 from its 2015 version. It has to be commended that the said policy was supported by the ILO ethics and whistle-blower policies, which defined the zero-tolerance policy of the Organization towards fraud and corruption. Nevertheless, we urge management to consider increasing staff awareness of these policies, considering the rise in fraud cases in 2017 as compared to the previous year.

E. ACKNOWLEDGEMENTS

90. We wish to express our appreciation for the cooperation and assistance extended to our staff during our audit by the Director-General, the Deputy Director-General, regional directors, headquarters directors, the Treasurer and Financial Comptroller, country directors and members of their staff.

91. We also wish to express our appreciation to the Governing Body and to the International Labour Conference for their continued support and interest in our work.

Annex A
STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS
(ILC.105.FIN and ILC.106.FIN)

	Recommendation	External Auditor's Validation
	ILC.105.FIN	
1	<p>SHIF payment processing and control:</p> <p>The current situation needs immediate attention and remediation in order to avoid further costs. Recommendations made by the Chief Internal Auditor, in his August 2015 report on the SHIF, ranked critical and high importance should be addressed by management in the coming months. (Para. 21)</p>	<p>Fully implemented</p> <p>The Office has addressed the recommendations of the Chief Internal Auditor. Thresholds, approval levels and internal procedures were modified to enhance controls. Staffing was reinforced and information technology systems used by SHIF were updated to enhance controls and reporting capabilities as well as further integration with other Office systems.</p>
2	<p>Effectiveness practices and overall accountability framework:</p> <p>The ILO should continue its effectiveness practices and coordinate its initiatives with the UN system. It should also improve its overall accountability framework, including implementing a SIC (Para. 42)</p>	<p>Fully implemented</p> <p>The Office continues to monitor and adapt its governance and overall accountability framework. This is reflected in particular in the formal adoption of an ICF in January 2018, aligning a “Three Lines of Defence” model with the Reference Model adopted by the UN High-level Committee on Management.</p> <p>In line with this Framework, a SIC has been issued for the year ended 31 December 2017.</p>
3	<p>ERM-Guidance on the principles of ERM, implementation and monitoring:</p> <p>The ILO should continue to provide guidance on the principles of ERM, implementation, monitoring, and reporting. Human Resources Development (HRD) should be involved in the training to ensure that training profiles are updated and that training evaluation is in place to improve future training sessions (Para. 69)</p>	<p>Fully implemented</p> <p>A revised risk management manual has been completed; and an e-learning package is about to be issued.</p> <p>HRD financed, and provided input into, the development of an e-learning package. Once completed, it will be placed on the ILO corporate learning platform, so that uptake can be monitored and reported to the Risk Management Committee.</p>

	Recommendation	External Auditor's Validation
4	<p>ERM-Lessons-learned exercises:</p> <p>The ILO should conduct lessons-learned exercises on preparing and implementing risk registers, monitoring risk, and reporting activities at the ILO. It should enhance communication to promote and ensure that risk management is embedded into ILO standard procedures and core processes and is key to the achievement of ILO's objectives (Para. 70)</p>	<p>Fully implemented</p> <p>The risk management framework was revised to take account of lessons learned. The Office has also developed procedures to provide management assurance over risk management. These procedures, inter alia, institutionalize a regular, cyclical review of the efficiency and effectiveness of risk management practices in ILO.</p> <p>Communication is part of the annual risk management plan to the Risk Management Plan. The main formal communication vehicle for risk so far has been the IGDS and face-to-face training. This will be supplemented with periodic articles in the ILO on-line magazine.</p>
5	<p>Training programmes and workforce requirements:</p> <p>The ILO should: formalize its post-training evaluation activities, assess the effectiveness of its training programmes, and continue to improve training programmes; and pursue efforts to increase the response rate of completing employee profiles, so that it has complete and reliable information to conduct workforce analysis for determining current and future workforce requirements and training needs. (Para. 78)</p>	<p>Implemented on an ongoing basis</p> <p>Implementation of the recommendations is accomplished on an on-going basis. The Office continues to identify and analyze training needs, define learning objectives and design and improve activities.</p> <p>With the launch of ILO Jobs recruitment module in ILO People (April 2018), the Employee profile tool will be used by internal candidates when applying for jobs. This will further strengthen the compliance and utilization of this tool.</p>
6	<p>Staff succession planning:</p> <p>The ILO should develop a comprehensive succession planning process and continue to increase staff mobility to allow them to gain the experience necessary to take on higher-level positions (Para. 88)</p>	<p>Implemented on an ongoing basis</p> <p>Using the tools mentioned above implementation is accomplished on an on-going basis. Both geographical and functional mobility of staff have been promoted, resulting over the period 2016-17 in the following:</p> <ul style="list-style-type: none"> - 101 geographical mobility cases for regular budget (30 Field to HQ moves, 27 HQ to Field moves and 44 Field to Field moves) - 246 functional mobility cases (142 from within regular budget, 77 from TC/DC to regular budget and 27 from regular budget to TC/DC) - 6 inter-agency mobility of regular budget staff to another UN agency

	Recommendation	External Auditor's Validation
	ILC.106.FIN	
7	<p>Accountability framework:</p> <p>We recommended and ILO agreed to improve the accountability framework to include the accountability mechanism and tools to more effectively facilitate the documentation and monitoring of accountability performance and achieve better transparency (Para. 26)</p>	<p>In progress</p> <p>The structure and content of the accountability framework is currently under review. Following the publication of the revised ERM Framework and the ICF, the issuance of the SIC in the 2017 financial statements, as well as revisions of a number of other accountability policies, the Office will update its accountability framework in a holistic manner, taking into consideration all relevant information and clarifying their interrelationships. This is targeted for the 3rd quarter of 2018.</p>
8	<p>Procurement feedback and grievances:</p> <p>We recommended and ILO agreed to:</p> <p>a. institute a Vendor Complaints and Grievances Policy to enhance procurement management and to foster better accountability and relationship between the Organization and its vendors; and</p> <p>b. develop a Vendor Sanctioning Policy to support procurement activities and enhance procurement guidelines, all within the frame of control and accountability and meets the requirement of the UN current practice (Para. 33)</p>	<p>Partially implemented</p> <p>On recommendation part a), the Office has published procedures for vendor debriefing and bid protests, which can be accessed on the public website. This part of the recommendation is considered as fully implemented.</p> <p>On recommendation part b), as stipulated in paragraph 3.3 - "Vendor Ineligibility" of the ILO Procurement Manual, the ILO adheres to the Model Policy Framework (MPF) approved by the HLCM and the Chief Executives Board in 2011. Accordingly, ILO considers ineligible for any commercial business vendors that have been declared ineligible by other organizations of the UN System, provided that such ineligibility has been disclosed in UNGM (in what is called the Vendor Ineligibility List). Consequently, offers that are not submitted by an eligible bidder are rejected. Together with other Geneva-based UN sister organizations (WHO, UNAIDS, ITU and WMO), ILO is also considering the establishment of a Joint Sanctions Board for dealing with cases of vendors' suspected of having corrupted procurement practices. If established, the Joint Sanctions Board would operate in compliance with the procedures contained in the above-referenced MPF. Part b) of the recommendation is considered as partially implemented</p>

	Recommendation	External Auditor's Validation
9	<p>Asset Accountability Policy and Procedures:</p> <p>We recommended and the ILO agreed to expand the Asset Accountability Policy and incorporate the circumstances surrounding asset loss; guidelines for documentation for lost assets; levels of administrative and fiscal responsibility and the role of the Committee on Accountability in safeguarding the Organization's assets to enhance the quality of controlling of assets and related accountabilities (Para. 38)</p>	<p>Partially implemented</p> <p>A revised version of the procedure IGDS 281 on the management of F&E has been drafted. The new version includes clear criteria defining major circumstances of asset loss, establishes clear guidelines for documentation in case of asset loss and defining the levels of administrative and fiscal responsibility for each type of circumstance defined as the cause of asset loss. The Office is also reviewing the accounting and financial reporting of fixed assets, which is part of the IGDS. A consolidated version is targeted for publication during the second half of 2018.</p>
10	<p>Ethics:</p> <p>We recommended and ILO agreed to:</p> <p>a. update the Whistle-blower Policy to include the two-step process of investigation, the amount of evidence needed in order to constitute disciplinary actions and the corresponding sanctions for each infraction to align more closely with the requirement of due process;</p> <p>b. integrate in the Principles of Conduct for Staff the latest office governance directives on Ethics to make the policy more effective and attuned to the needs of Staff;</p> <p>c. include in the Conflicts of Interest Policy provisions relating to incompatible functions within the Office to provide clearer and more complete line of sight in exacting accountabilities thereby further enhancing integrity in job performance; and</p> <p>d. incorporate in the Anti-Fraud Policy of 2009 an internal mechanism and clear modalities in terms of conducting fair and unbiased investigation on cases that may be committed by the Executive Head. (Para. 46)</p>	<p>Partially implemented</p> <p><i>On a.</i> The ILO whistle-blower protection procedure will be updated after taking into account JIU observations and recommendations expected following their system wide review of such procedures.</p> <p><i>On b.</i> The Principles of Conduct are still being reviewed. An ILO Ethics Staff Survey was undertaken in January 2018, the results of which will further inform the review and updating of the Principles of Conduct.</p> <p><i>On c.</i> This matter has not yet been implemented. See response to a) above.</p> <p><i>On d:</i> The anti-fraud (and anti-corruption) policy has been revised in October 2017, addressing the specific audit recommendations as well as other matters requiring updates.</p>

	Recommendation	External Auditor's Validation
11	<p>Internal Control Framework:</p> <p>We recommended and ILO agreed to reinforce its internal control arrangements in relation to its overall framework of governance through the crafting of a most appropriate ICF to ensure a more effective strategic management of its embedded controls, and align these controls more closely to the other existing governance mechanisms. (Para. 52)</p>	<p>Fully implemented</p> <p>An Internal Control Framework document has been issued in January 2018. The document defines internal control and its interaction with risk management and accountability as integral parts of the Office's overall internal governance system; confirms the roles and responsibilities for the implementation of internal control throughout the Office; and maps the elements of the Office's existing system of internal control against commonly established principles.</p>
12	<p>Risk management:</p> <p>We recommended that ILO consider in its 2017 planned enhancements of the ERM process the:</p> <p>a) formal process for risk communication and aggregation within 2017, in support of the updating of its Strategic Risk Register;</p> <p>b) improvement in the clarity of guidance on identification of inherent risk; and</p> <p>c) more robust programme on risk management competency build-up amongst its staff to warrant a more effective delivery of risk management across the Organization. (Para. 57)</p>	<p>In progress</p> <p>In 2017, ILO has continued measures to build organizational capacity to identify, evaluate, respond to and manage risk methodically, effectively and efficiently. Drawing on lessons learned, it has updated its risk management framework, strengthened the governance of risk, revised the generic risk management model, prepared a new risk management manual and a catalogue of risks, developed an on-line training package, and put in place a cloud-based risk management IT platform. It has also updated ILO's risk management intranet site and developed a number of communication tools, including an interactive one-page risk assessment tool and a range of informal networks inside and outside ILO to support and advise on the development of risk management practices in ILO. Lastly, it has also started to rationalize, coordinate and streamline the different approaches to risk management adopted by different processes within ILO, starting with risk management in DC projects.</p>

	Recommendation	External Auditor's Validation
13	<p>RBM - Assessment of SOs effecting the changes influenced by ILO's interventions:</p> <p>We recommended that the ILO:</p> <p>a. initiate assessment of the most recent achievements in the SOs to initially identify areas of concern needing continued support, and present these in accordance with the Organization's accountability hierarchy to solicit comments and agree on the priority higher level changes to be achieved within an agreed timeline; and</p> <p>b. craft the SOs in a change language before the end of the planning period to reflect specific, measurable and time-bound higher-level changes as improvement over the baseline conditions, considering the related assumptions and risks, moving forward. (Para. 64)</p>	<p>Partially implemented</p> <p>The Office has identified areas that need continued support in the context of the PIR for 2016-17 (published in February 2018 and discussed at the 332nd session of the Governing Body in March 2018) and is committed to pursuing options for implementing recommendation 7b in the context of preparations for the P&B for 2020-21, which will start in the second quarter of 2018.</p> <p>Drawing on both internal and external expertise, the Office is undertaking an Office-wide process to improve the ILO's RBM system. This process will also address issues raised in the audit recommendations.</p>
14	<p>RBM - Alignment of outcomes to SOs:</p> <p>We recommended that the ILO:</p> <p>a. identify and prioritize, the expected changes or outcomes achievable within a given period, express them following the SMART attributes and present them under the SO to which they contribute; and</p> <p>b. ensure that the SOs and outcomes express the desired higher-level and immediate changes achievable within the agreed planned period, and adopt the SMART attributes in their formulation. (Para. 70)</p>	<p>Partially implemented</p> <p>At the 331st session of the GB in October 2017, the Office presented a proposal for an integrated policy outcome reporting within the framework of the four SOs. The Governing Body decided to defer consideration of this matter to further consultations.</p> <p>Drawing on both internal and external expertise, the Office is undertaking an Office-wide process to improve the ILO's RBM system. This process will also address issues raised in the audit recommendation.</p>

	Recommendation	External Auditor's Validation
15	<p>RBM - Linkage of outputs to outcomes and accountability for delivery:</p> <p>We recommended that the ILO:</p> <p>a. distinguish and prioritize the Outputs which most significantly contribute to the Outcomes, present with clarity which Outcome the Outputs influence and identify which level/s of the Organization is/are responsible for their delivery to clarify accountability; and</p> <p>b. initiate a re-thinking process of the P&B structure by all levels of the Organization, on how the Theory of Change and the causal relationships of the outputs, outcome and impact/SOs can be presented with clarity to improve measurability and accountability for results. (Para. 75)</p>	<p>In progress</p> <p>The Office notes that it has already made significant progress in implementing these recommendations. The P&B Proposals for 2018-19 have further clarified the links between the expected changes to be achieved with ILO support under each policy outcome and the most significant output the Office will deliver as part of the strategy to achieve those changes. The delivery of outputs relies on the integrated use of all resources available to the ILO, whether from assessed contributions or voluntary contributions, as planned from across technical programmes at HQ and regions at the time of preparing the P&B and further detailed in OBWs at the time of the programme implementation. The Office acknowledges the need to further improve accountability for its outputs and has chosen to do so as part of the implementation of the P&B during 2018-19, together with a clearer presentation of the theory of change.</p>
16	<p>RBM - Measurement of SOs and outputs:</p> <p>We recommended and ILO agreed that:</p> <p>a. initiate discussions on the measurement of the agreed SOs and Outputs using SMART indicators, baselines and targets, based on the results of the assessment of the achievements of the SOs and agreed higher-level changes;</p> <p>b. agree on the common most significant outputs that are achievable within the biennium to be delivered by various levels of the Organization, which contribute to and will be used to measure progress of the outcomes, and formulate their SMART indicators;</p>	<p>In progress</p> <p>Drawing on both internal and external expertise, the Office is undertaking an Office-wide process to improve the ILO's RBM system. This process will also address issues raised in the audit recommendations.</p>

	Recommendation	External Auditor's Validation
	<p>c. ensure that the Outputs reflect the Office's products and services and not the results to which they contribute to, and that these Outputs and its Indicators are reflected consistently in the workplans across the Organization for uniform measurement of results; and</p> <p>d. develop guidance on the measurement of SOs and Outputs based on agreements reached. (Para. 79)</p>	
17	<p>RBM - Harmonization of RBM policies, tools and application in the P&B, DWCPs and DC projects:</p> <p>We recommended that ILO initiate discussions amongst departments/offices involved in the P&B, DWCP and DC projects on the existing RBM application, to determine the root causes of the differences in policies, tools and application and to harmonize them to guarantee better results aggregation, moving forward. (Para. 84)</p>	<p>In progress</p> <p>An internal task force on RBM started working in August 2017. Drawing on both internal and external expertise, the Office is undertaking an Office-wide process to improve the ILO's RBM system. This process will also address issues raised in the audit recommendations.</p>
18	<p>RBM- Cascading of P&B Outcomes to Workplans:</p> <p>We recommended that ILO:</p> <p>a. enhance the presentation of the most significant outputs in the P&B and the OBW to reflect clearly that the outputs in the P&B are the same as those in the OBW for improved traceability and monitoring of outputs;</p> <p>b. formulate its OBWs to show distinctly how the P&B outcomes flow to the OBWs by indicating therein the outcomes and/or outputs that supports those in the P&B;</p> <p>c. develop Unit Workplans (UWs) appropriate for each level of the Organization ensuring that the HQ departments/offices and field offices' UWs show how their outputs relate to and support the OBW outputs, as the key information to establish such link; and</p>	<p>Partially implemented</p> <p>The Office produced revised guidance in the context of its preparations for the OBW 2018-19 planning exercise. Moreover, the exercise was preceded by a strategic planning workshop in October 2017, which provided an opportunity for Outcome Team Leads and field representatives to address the linkages between Most Significant Outputs and outputs at regional level.</p>

	Recommendation	External Auditor's Validation
	d. improve the existing guidance on the OBWs to clarify the cascading of the P&B outcomes to the OBWs and UWs for enhanced monitoring and reporting on progress and results, and to provide bases for the individual workplans and subsequent staff performance appraisal. (Para. 90)	
19	<p>RBM - Use of OBW and UW formats:</p> <p>We recommended that ILO:</p> <p>a. facilitate a forum of OCTs, concerned departments and field offices where in consultation with each other they will review the current workplans, identify challenges and agree on the design/ format of the OBW and UW templates that will effectively address and support the planning, monitoring and reporting requirements across all levels of the Organization;</p> <p>b. ensure that the OCTs develop OBW and UW templates that will guarantee the clear cascading of the P&B outcomes to the level of UWs, the accountability for outputs, the monitoring of their delivery within given timelines, and the reporting on results; and</p> <p>c. develop guidance on the mandatory preparation of the workplans, defining accountabilities for their preparation, review, and approval and monitoring, to provide the basis for implementation, review, reporting of results and performance appraisal. (Para. 96)</p>	<p>In progress</p> <p>Based on the outcome of the strategic planning workshop of October 2017, the OBWs were finalized in consultation with field offices. The internal task force on RBM is in the process of analyzing existing monitoring and work planning templates in line with the recommendation.</p>

	Recommendation	External Auditor's Validation
20	<p>RBM - Information system supporting programme results management:</p> <p>We recommended that ILO facilitate an assessment of the needs of the OCTs and departments/offices throughout the programme management cycle, and the review of the capabilities of SM/M, SM/IP, OGA and IRIS to identify and apply the necessary enhancements. (Para. 102)</p>	<p>In progress</p> <p>Enhancements of SM/IP and SM/IR are initiated and implemented on a periodic basis, based on requirements as assessed by PROGRAM and on feedback provided by users. Specific consultations with users regarding issues such as multiple Country Programme Outcome (CPO) linking, pre-defined CPOs and Cross-cutting Policy Drivers (CCPD) guidance were undertaken in the last quarter of 2017. This has led to several enhancements in SM/IP, including to facilitate improved planning and monitoring of CCPDs and of the contribution of CPOs to the Sustainable Development Goals.</p>
21	<p>Programme results monitoring - Overall monitoring system and Mechanisms:</p> <p>We recommended that ILO craft a programme monitoring framework including the related tools that will enable a transparent, reliable, uniform and evidence-based assessment of progress on the achievement of planned results. (Para. 106)</p>	<p>In progress</p> <p>As part of its work, the internal task force on RBM will undertake a revision of existing templates, processes and systems to ensure better documentation of progress towards results and enhanced coordination between monitoring efforts at project, country, regional and global levels.</p>
22	<p>RBM - Review of operations of Regional and Field Offices:</p> <p>We recommended that the ILO enhance the level of management controls in its Regional and Country operations by further improving their monitoring and supervisory controls over critical processes to warrant the performance of the embedded controls as intended. (Para. 110)</p>	<p>In progress</p> <p>ROs and those COs have been implementing the External Auditor's recommendations and new governance procedures to further improve financial management.</p>

7. Appendix

Additional unaudited information

Detail of net assets revenue and expense by fund for 2017 (US\$ thousands)

	Net Assets 31 Dec. 2016	Revenue 2017	Expense 2017	Foreign exchange gain (losses) 2017	Net result 2017	Deficit financing	Adjustments to Net Assets	Net Assets 31 Dec. 2017
Funds with approved budget:								
Regular Budget	99 621	360 054	(407 209)	36 873	(10 282)	70 166	(23 517)	135 988
CINTERFOR	1 015	1 760	(1 707)	(8)	45	–	–	1 060
ITC	17 455	42 027	(42 583)	(1 203)	(1 759)	–	2 438	18 134
Subtotal	118 091	403 841	(451 499)	35 662	(11 996)	70 166	(21 079)	155 182
Voluntary contribution activities								
Development Cooperation Projects	–	225 728	(225 141)	(587)	–	–	–	–
RBSA	45 804	16 444	(16 091)	15	368	–	–	46 172
Subtotal	45 804	242 172	(241 232)	(572)	368	–	–	46 172
Subsidiary funds								
Programme Support Income	68 185	22 198	(15 959)	593	6 832	–	(7)	75 010
Publications	1 445	259	(140)	(3)	116	–	–	1 561
Information Technology System	1 646	8	–	(4)	4	–	–	1 650
Research	15 114	80	638	(32)	686	–	–	15 800
Gifts, Grants and Reimbursable Costs	4 508	2 536	(1 867)	28	697	–	–	5 205
Land and Buildings	542 179	50 328	(8 173)	(1 520)	40 635	–	(66 868)	515 946
Building Accommodation	68 671	4 044	(45 400)	2 953	(38 403)	–	–	30 268
Working Capital	34 147	–	–	1 641	1 641	(35 788)	–	–
Income Adjustment Account	60 021	977	(682)	2 443	2 738	(34 378)	–	28 381
Prior Period Surplus	766	4	(3)	34	35	–	–	801
Special Programme Accounts	9 017	40	(1 576)	340	(1 196)	–	–	7 821
Terminal Benefits	1 309	6 724	(5 590)	(28)	1 106	–	2 819	5 234
SHIF	61 363	48 739	(47 628)	1 692	2 803	–	–	64 166
ASHI Liability	(1 307 330)	–	(39 229)	–	(39 229)	–	(287 264)	(1 633 823)
ASHI Reserve	4 822	1 214	–	(11)	1 203	–	–	6 025
Other Funds	3 264	6 161	(3 469)	39	2 731	–	(7)	5 988
Subtotal	(430 873)	143 312	(169 078)	8 165	(17 601)	(70 166)	(351 327)	(869 967)
Inter-fund elimination	–	(125 811)	125 811	–	–	–	–	–
Total	(266 978)	663 514	(735 998)	43 255	(29 229)	–	(372 406)	(668 613)