



Governing Body

332nd *bis* Session, Geneva, 28 May 2018

GB.332bis/PFA/PV

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

PFA

Minutes of the Programme, Financial and Administrative Section of the Governing Body at its 332nd *bis* Session (28 May 2018)

First item on the agenda

Financial report and audited consolidated financial statements for the year ended 31 December 2017 ([GB.332bis/PFA/1](#))

1. The Programme, Financial and Administrative Section of the Governing Body met on 28 May 2018. It was chaired by the Chairperson of the Governing Body. Ms Menée and Mr Mdwaba were the Worker and Employer spokespersons, respectively.
2. *A representative of the Director-General* (Treasurer and Financial Comptroller) made brief introductory comments on the financial statements for the year ended 31 December 2017. He confirmed that the officers of the Board of the ILO International Training Centre in Turin had met on 25 May 2018 and approved the Centre's financial statements for the year ended 31 December 2017, which were consolidated with those of the ILO.
3. The general purpose financial statements (Statements I–IV) had been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) on a full accrual basis and reflected one year's financial activity. In contrast, Statement V-A reported the biennial financial performance of the Office on a modified accrual basis in accordance with the Financial Regulations. Note 24 provided a reconciliation of the results presented under Statements II and V-A. In reconciling IPSAS and the budgetary results, adjustments had been made for the annual versus biennial periods of activity and delays in the receipt of member States' contributions, which were included only in the budgetary calculation of the surplus. There had been no substantial changes in financial policies since the presentation of the previous statements and the adoption of five new accounting standards had had no impact on the ILO's financial statements.
4. The value of the consolidated net assets of the Organization had decreased over the previous 12 months by some US\$400 million, mainly attributable to growth in the after-service health insurance (ASHI) liability owing principally to changes in actuarial estimates at the United

Nations system level; the Office would report to the Governing Body on the outcome of the ongoing deliberations of the United Nations General Assembly on funding the ASHI liability and cost containment options. Despite this long-term liability, the working capital and liquidity positions of the Organization remained strong.

5. Assessed contributions received from member States were some \$55.1 million below the budgeted income level for the biennium; combined with the mandatory reimbursement of the prior biennium's deficit of \$16.4 million and a modest budgetary surplus of \$1.4 million, this had resulted in a net deficit of \$70.1 million for 2016–17, of which 80 per cent had been reimbursed from payments of arrears by member States as of May 2018.
6. The recommendations contained in the External Auditor's long-form report (ILC.107/FIN) were broadly in line with initiatives and actions that were being pursued by the Office, which had engaged extensively with the External Auditor throughout the audit process.
7. Mr Aguinaldo, *Chairperson of the Commission on Audit of the Philippines*, in presenting his second report as External Auditor and the results of the audit of the ILO's accounts for the year ended 31 December 2017, said that he was able to issue an unmodified audit opinion on the Organization's IPSAS-based financial statements for 2017. The audit included not only the certification of annual accounts but also reviews of operational effectiveness and efficiency or "performance audits". The audit had confirmed that ILO accounting policies had been applied consistently with those applied in 2016 and with the Financial Regulations and the legislative authority of the ILO.
8. In addition to its work at the ILO headquarters, his staff had conducted field work in the ILO Regional Office for Africa, the ILO Decent Work Team for Eastern and Southern Africa, the ILO Country Office for South Africa, Botswana, Lesotho and Swaziland, and the ILO Country Office for Ethiopia, Djibouti, Somalia, Sudan and South Sudan, and had also audited the International Training Centre and the Staff Health Insurance Fund (SHIF).
9. As noted in the 2016 audit, the importance of internal governance was highlighted and the progress and commitment of the ILO in this area was noted as reflected in the roadmap on results-based management for 2018–21 and the preparation of related policies and of the Statement of Internal Control, as well as the updating of the Organization's enterprise risk management framework and guidelines.
10. Specific operational improvements that were needed included the enhancement of results-based programme monitoring and reporting; the creation of a robust monitoring mechanism to enhance the preparation of procurement plans, including an annual office-wide procurement plan; improved and more efficient management of travel policy and planning in keeping with the UN Climate-Neutral Strategy of 2007; and the optimization of supervisory and monitoring controls of critical business processes in the regional and country offices. The high expectations of stakeholders for continuous improvement in ILO governance arrangements needed to be met by strong and stable policies and processes.
11. Ms Malik, *Chairperson of the Independent Oversight Advisory Committee (IOAC)*, reported on the Committee's review of the financial statements for 2017 and the External Auditor's report, noting that the application of IPSAS standards 34–36 and 38 in 2017 had resulted in no impact on the financial statements, nor was any impact expected from the application of standards 21, 26 and 39 in 2018.
12. All accounting policies had been applied consistently. Having received satisfactory replies from both the Office and the External Auditor on a number of points of technical clarification, the Committee had no technical accounting issues to bring to the attention of the Governing Body. The execution of the external audit plan was found to have addressed

the risks identified in the plan and the Committee was satisfied with the responses of the Office to the recommendations of External Auditor as reflected in the report.

13. The development by the ILO of its first statement of internal control, following previous audit recommendations, was found to be robust.
14. Regarding follow-up to past recommendations of the External Auditor, the Committee reiterated the need for faster implementation and repeated its encouragement of the Office in this regard.
15. In the context of the consolidated statement of financial position, whose importance for long-term financial sustainability had been highlighted by the implementation of IPSAS, the Committee reiterated the adverse impact of the unfunded ASHI liability on the Organization's net assets, which had increased to approximately one year of total revenues.
16. Lastly, Ms Malik noted that the Office had once again achieved an unmodified audit opinion, with which the Committee concurred.
17. *The Worker spokesperson*, commenting on the report of the External Auditor, noted with satisfaction that the External Auditor had expressed an unmodified opinion on the 2017 consolidated financial statements in accordance with IPSAS.
18. Her group welcomed the improvements reported in results-based management (RBM), including the creation of an RBM roadmap for 2018–21 and an RBM task team, and also the introduction of the internal control framework together with the positive developments in relation to risk management.
19. The group invited the Office to follow up on the External Auditor's recommendation that it enhance its monitoring and reporting mechanisms. It supported the Office's suggested procedures and guidelines for developing data collection and validation in the context of preparing for the 2017–18 Programme Implementation Report (PIR).
20. Concerning travel and procurement management, the group welcomed in particular the points relating to a sustainable travel policy and invited the Office to follow up on the External Auditor's recommendations concerning a sustainable procurement policy that included provisions on environmentally responsible procurement in the standard terms and conditions of ILO contracts, vendor assessment and evaluation that embraced sustainability criteria and specifications, and sustainable disposal of assets procured.
21. The group welcomed the commitment made by the Office to prepare guidance to raise staff awareness of travel-related CO₂ issues in response to the External Auditor's recommendation on reducing the UN climate footprint.
22. Lastly, her group noted with satisfaction that the Office had fully implemented five of the recommendations made by previous audits and that the remainder were in process of implementation, particularly with regard to SHIF control and reporting capabilities and its integration with other Office systems, and the development of a comprehensive succession planning process.
23. *The Employer spokesperson* recalled that, during its previous session, the Governing Body had been advised by PROGRAM that actual expenditure figures by policy outcome could not be included in the draft PIR as the audit had not yet been completed. It was therefore disappointing that those figures were not to be found in the final PIR or the External Auditor's report. Likewise, it would have been useful for the Office to have included in the Financial Report, namely in the table on "Variance analysis by strategic outcome for

2014–17”, information relating to the ten policy outcomes, so as to allow an overview of budgets and outcomes.

24. Concerning the statement in the report that a higher delivery rate had been achieved in 2016–17 compared to the previous biennium, his group was content that “more active budget management processes” had been adopted to achieve that outcome, but felt that when any significant budget reshuffling was involved, the appropriate place to discuss it was in the Governing Body, given the number of policy outcomes that had fluctuated during 2016–17.
25. To further aid understanding of how the Office’s work corresponded to the programme and budget, in the future the group would appreciate receiving a time series analysis of expenditures over the biennium.
26. He recalled that his group had requested both greater financial transparency in relation to the ten policy outcomes for regular budget and extra-budgetary technical cooperation, as well as key Office initiatives such as the Business Process Review. It would also like to see comprehensive assessments of budgets and expenditures associated with the Centenary Initiative, especially the Future of Work Initiative, and with HR policies such as staff mobility.
27. Looking ahead, the group would like to see in the Financial Report an assessment of the litigation costs relating to the salary cut and an overview of how the savings from the salary cut would be used.
28. *Speaking on behalf of the Africa group*, a Government representative of Swaziland was pleased that the External Auditor had expressed an unmodified opinion on the 2017 consolidated financial statements in accordance with IPSAS. The group requested the Office to ensure full and effective implementation of external audit recommendations.
29. The group supported the draft decision contained in paragraph 4 of the document before the meeting.
30. *The representative of the Director-General* (Treasurer and Financial Comptroller) acknowledged the Employer spokesperson’s reminder of his group’s request during the March consideration of the Programme Implementation Report that future reports contain enhanced financial reporting. He noted that additional information had been included in the 2016–17 Implementation Report and further improvements reflecting both the Employers’ suggestions and those of the External Auditor would be included in the 2018–19 Report. He confirmed that active budget management included the setting of targets and that that practice had contributed to the improved delivery rate in 2016–17 and had also reduced the late biennium peak in delivery. The Office had also taken note of the request for further financial analysis.

Decision

- 31. *The Governing Body took note of the External Auditor's report and forwarded the consolidated financial statements for the year ended 31 December 2017 and the External Auditor's report thereon to the Conference for consideration and adoption.***

(GB.332bis/PFA/1, paragraph 4.)

Geneva, 28 May 2018