International Labour Organization

Financial report and audited consolidated financial statements for the year ended 31 December 2019

and Report of the External Auditor

ILC.109/FIN/2019

International Labour Organization

Financial report and audited consolidated financial statements for the year ended 31 December 2019

and Report of the External Auditor

International Labour Office, Geneva

ISBN 978-92-2-132412-6 (print)
ISBN 978-92-2-132413-3 (Web pdf)
ISSN 0074-6681

First edition 2020

Formatted by TTE: Confrep-ILC109-Financier-Auditeur externe-2019-[FINAN-200529-1]-En.docx
Printed by the International Labour Office, Geneva, Switzerland

Contents

1. Financial report on the 2019 accounts

Introduction

1. The 2019 consolidated financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). They cover all operations under the direct authority of the Director-General which include 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 2019 represent one half of the approved biennial budgets.

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 2019

5. The table below summarizes the financial situation of the ILO in 2019 as compared to 2018 and 2017 (the final year of the previous biennium):

(US$ thousands)	2019	2018	2017
Revenue	758 236	708 361	663 515
Expenses	(808 544)	(742 095)	(735 999)
Foreign exchange gains/(losses)	16 178	3 502	43 255
Surplus (deficit)	**(34 130)**	**(30 232)**	**(29 229)**
Assets	2 284 181	1 953 973	1 852 930
Liabilities	(3 053 790)	(2 583 330)	(2 521 544)
Net assets	**(769 609)**	**(629 357)**	**(668 614)**

6. The consolidated deficit for 2019 is US$34.13 million compared to a deficit of US$30.23 million in 2018 and a deficit of US$29.23 million in 2017. An analysis of revenue and expenses is provided in the "Financial performance" section of this report.

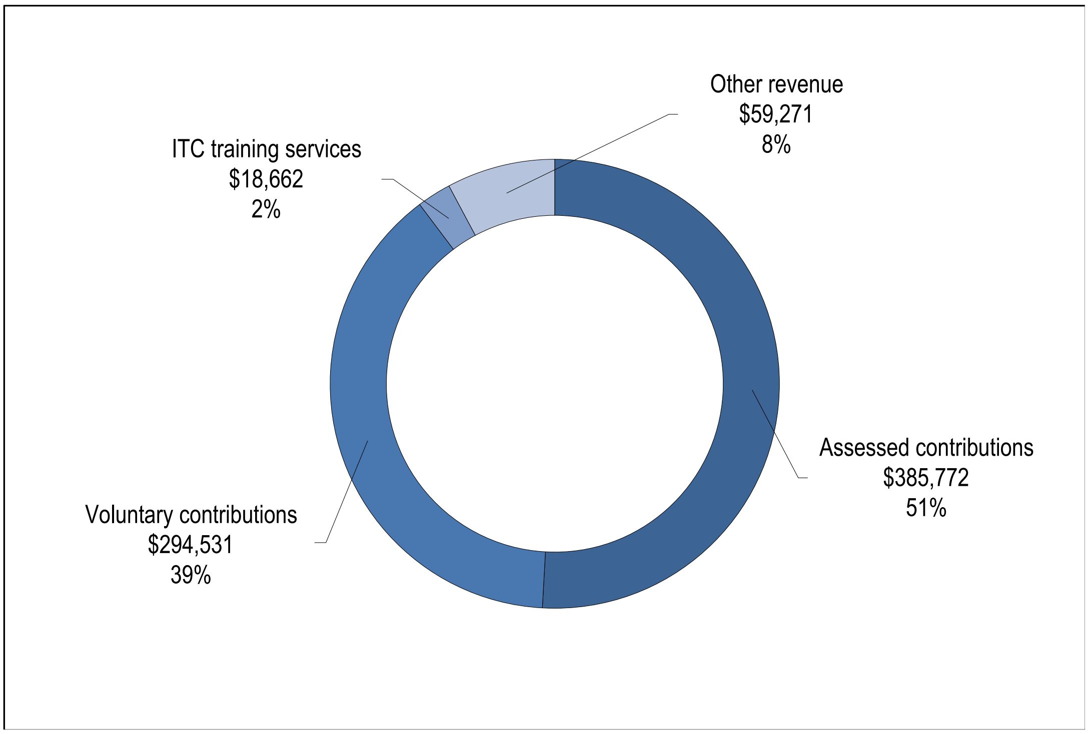
7. The decrease in net assets from negative US$629.36 million in 2018 to a negative US$769.61 million in 2019 is mainly attributable to actuarial losses incurred on the ASHI liability partially offset by increases in the fair value of land and buildings. Further information on the most significant movements in assets and liabilities is provided in the "Financial position" section of 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 2019 totalled US$758.24 million, representing an increase of US$49.88 million over total revenue of US$708.36 million in 2018. Sources of revenues in 2019 were as follows:

Figure 1. Revenue by source, 2019 (US$ thousands)



9. The two principal sources of revenue for the Organization were assessed contributions from Member States and voluntary contributions, representing 90 per cent of total revenue.

10. Revenue from assessed contributions decreased by US$1.02 million compared to 2018. Under IPSAS, the revenue for contributions from Member States assessed in Swiss francs is recognized at the beginning of each financial year, and is impacted by fluctuations in currency rates between the Swiss franc and the US dollar. The assessed contributions revenue is also presented in the financial statements net of the change in the provision established for 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 2019 exchange rate fluctuations resulted in decreased revenue from assessed contributions of US$3.54 million in US dollar terms. This was partially offset by the reduction in the change of provision (US$2.52 million). The assessed amount in Swiss francs was at the same level for both 2019 and 2018 (CHF380.30 million each).

11. Voluntary contributions to development cooperation projects are normally subject to performance conditions in the donor agreements, and are therefore recognized as deferred revenue liabilities under IPSAS until the performance conditions are met through programme delivery. The current year increase in voluntary contributions revenue of US$33.40 million is attributable to an increase in programme delivery related to the

contributions. Details on voluntary contribution activities are provided in the "Other funds" section of this report.

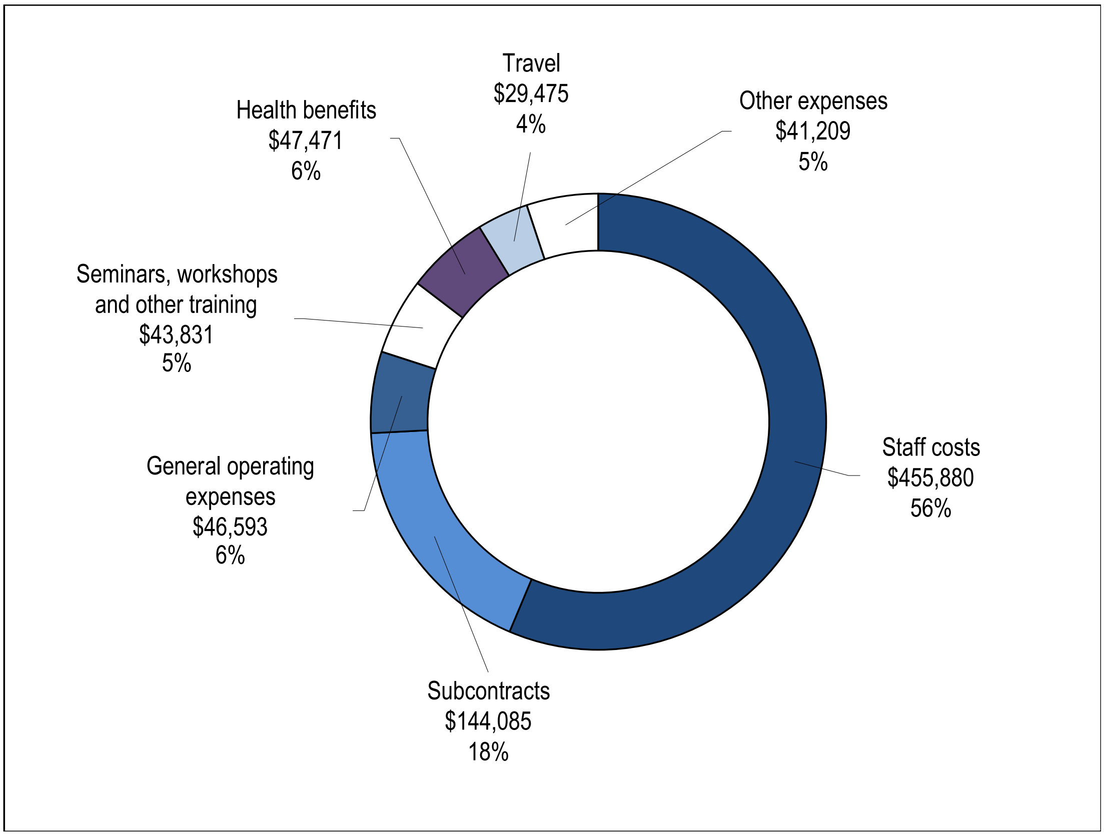
12. Other revenue in figure 1 includes revenue from staff/retiree contributions to SHIF, sales and royalties, investment income and other miscellaneous revenue. The overall increase in this category of US$15.27 million is almost entirely due to increases in investment income over the prior year. The increase in investment income is due to higher interest rates realized on short-term deposits and the strong performance of long-term investments.

13. The transactions of the ITC are recorded in Euro, the functional currency of the Centre and translated to US dollars for consolidation in US dollar terms. The revenue earned by the Centre increased by US$2.23 million in 2019 in line with the historic pattern of comparatively higher revenues in the second year of the biennium, despite a reduction due to currency translation effects.

Expenses

14. Expenses in 2019 totalled US$808.54 million (US$742.10 million in 2018) and were distributed as follows:

Figure 2. Expenses in 2019 (US$ thousands)



15. In 2019, expenditure increased by US$66.44 million or by 8.9 per cent as compared to 2018. This was consistent with the ILO's historic pattern of comparatively higher expenditure in the second year of the biennium.

16. The two most significant categories of expenses for the Organization were staff costs (salaries and related benefits) and subcontracts representing a combined 74 per cent of

total expenses. Included in staff costs expenses are increases in current year charges related to future employee benefit costs, primarily due to the increase in ASHI of US$9.78 million.

17. More details on expenditure related to programme delivery are provided in the "Regular budget" and "Other funds" sections of this report.

Foreign exchange gains/losses

18. 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 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 that is returned to the Member States at the end of each biennium (see note 18 to the financial statements).

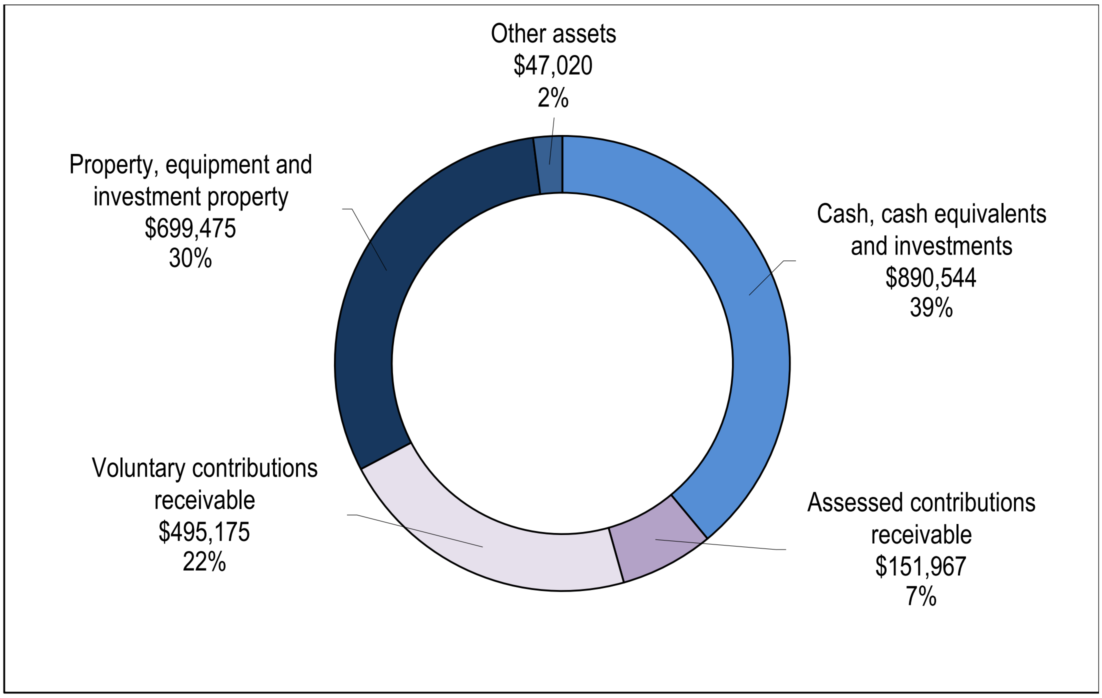
19. In 2019, the net gain on foreign exchange of US$16.18 million consisted of US$6.53 million unrealized gains from the revaluation of assets and liabilities held in currencies other than the US dollar and US$9.65 million net realized exchange net gains, which included a gain of US$15.57 million on the forward purchase agreements.

Financial position

Assets

20. Assets as at 31 December 2019 totalled US$2,284.18 million, an increase of US$330.21 million over the total at 31 December 2018 of US$1,953.97 million, and were categorized as follows:

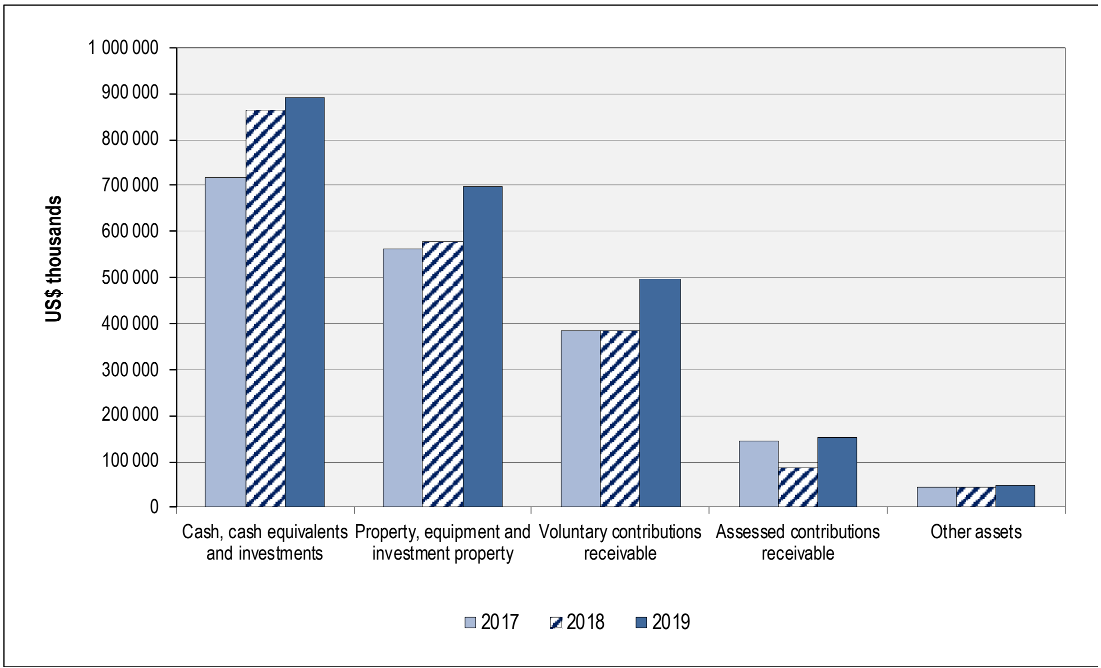
Figure 3. Assets (US$ thousand)



21. Cash, cash equivalents and investments totalling US$890.54 million (US$863.57 million as at 31 December 2018) were the largest component of assets as at 31 December 2019 representing 39 per cent of the total assets. Of this amount, US$396.56 million or 45 per cent (US$347.23 million or 40 per cent at 31 December 2018) corresponded to funds held on behalf of donors for development cooperation projects. The other significant assets were property, equipment and investment property totalling US$699.48 million or 30 per cent and amounts receivable through assessed and voluntary contribution revenues, totalling US$647.14 million or 29 per cent.

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

Figure 4. Assets, three-year comparison



23. Property, equipment and investment property is mainly composed of land and buildings. Total land and buildings, including one non-strategic plot of land in Geneva classified as investment property, had a market value of US$688.81 million showing an increase of 21 per cent over the prior year. The market value is a point-in-time estimate at 31 December 2019 calculated by an independent valuer in accordance with international valuation standards.

24. The significant increase in land values in Geneva for 2019 reflects the evolution of the prices for property where the land plots are situated, with increased interest from developers that was driven by the more concrete implementation of the area's development plans and infrastructure investments. After a period of declining land values the trend reversed in 2019 and consequently the land values in Geneva increased by U$108.50 million of which US$4.74 million represent foreign currency gains due to the strengthening of the Swiss franc. The total market value of land in field locations remained stable and noted only a slight decrease of US$139,533 compared to 2018.

25. The total value of buildings increased by US$13.05 million, mainly attributable to an increase in the market value of the headquarters building of US$12.94 million due to the renovation work realized during the year. The total market value of buildings in other locations remained stable, with a slight increase of US$105,697 as compared to 2018.

Voluntary contributions receivable

26. Voluntary contributions receivable from donors are amounts supported by enforceable agreements that are subject to specific performance conditions; accordingly these amounts are also treated as a deferred revenue liability until such performance conditions have been met.

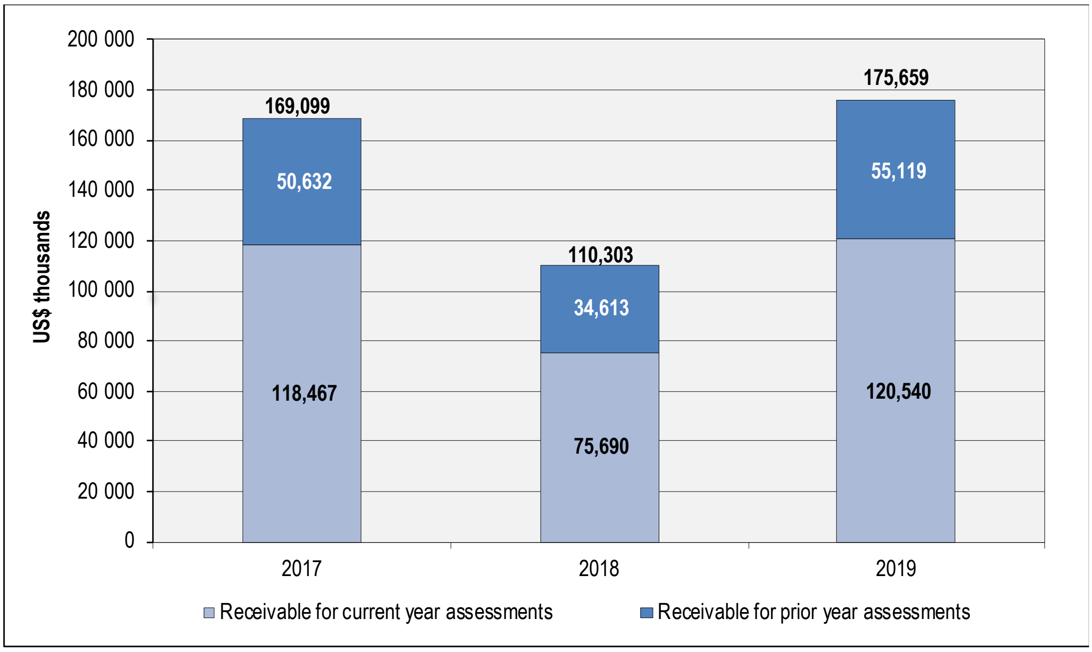
27. The signing of several significant multi-year funding agreements during 2019 resulted in an increase to voluntary contributions receivable of US$112.49 million, net of future year discounting effects.

Assessed contributions receivable

28. Due to the lower collection rate on current year contributions and arrears in 2019, the level of gross assessed contributions receivable increased by US$65.36 million to US$175.66 million as at 31 December 2019, prior to the required adjustment for Member States which had lost the right to vote and where financial arrangements are in place. The details on the net assessed contribution receivable are provided in note 5 to the financial statements.

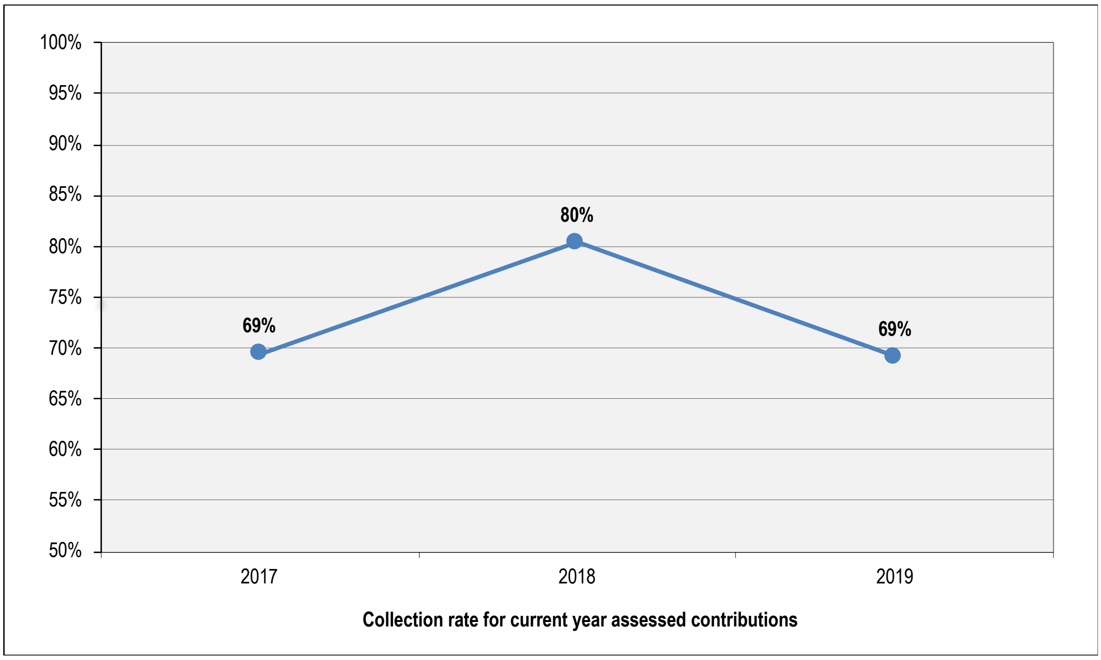
29. Figure 5 summarizes the gross assessed contributions receivable balances and their components at the end of each of the last three years:

Figure 5. Assessed contributions receivable



30. 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)

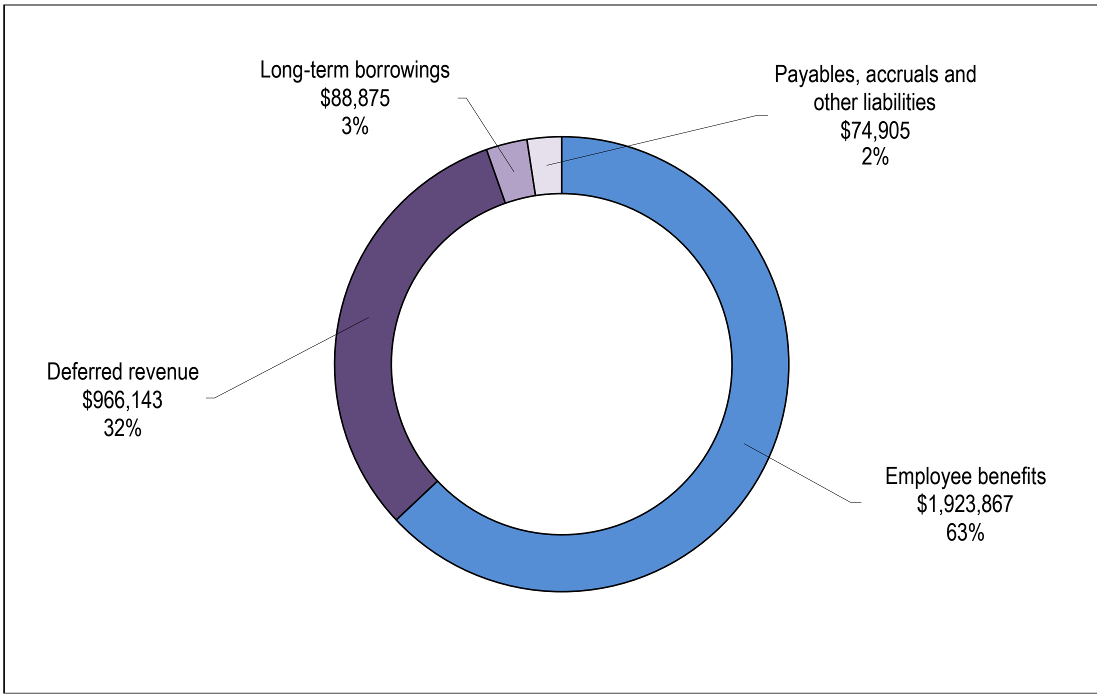


31. The collection rate of 69 per cent is at the same level as in 2017 and reflects the same pattern experienced at the end of the last biennium. The drop in the collection rate as compared to 2018 is mainly due to the delay in the payment of current year contributions by large contributors. It should be noted, however, that of the uncollected amounts, 30 per cent of arrears relating to the 2019 contributions were received during the first three months of 2020. A provision of US$21.85 million (US$22.31 million at 31 December 2018) has been made in respect of the amount due from Member States that had lost the right to vote at 31 December 2019 and amounts due by States for prior periods of membership in the ILO. More detailed information on assessed contributions can be found in note 32 and note 33 to the financial statements.

Liabilities

32. Liabilities as at 31 December 2019 totalled US$3,053.79 million, an increase of US$470.46 million over the total at 31 December 2018 of US$2,583.33 million, and were categorized as follows:

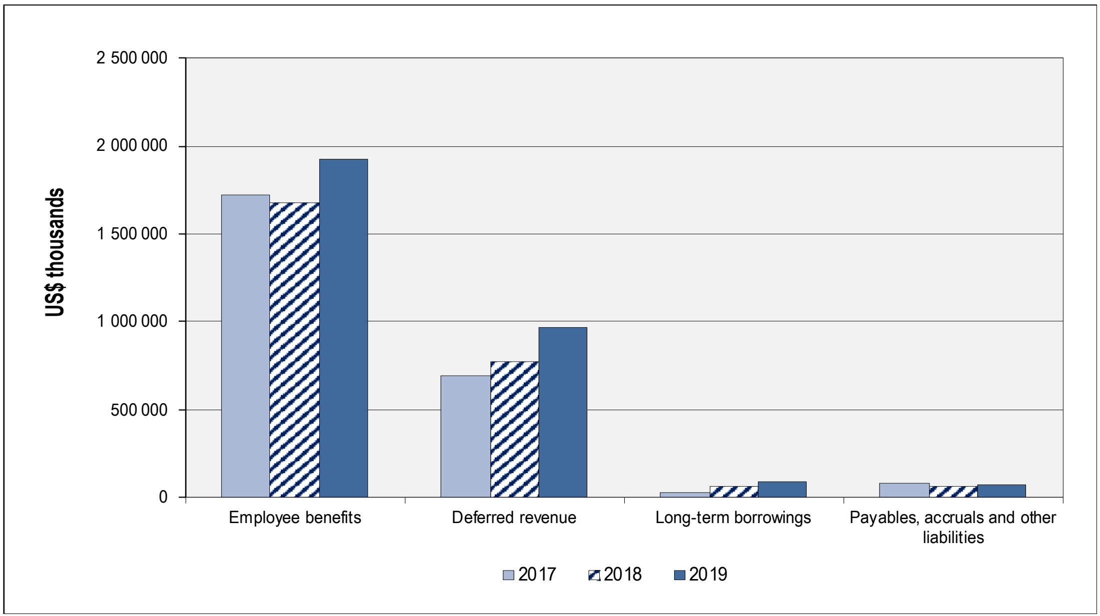
Figure 7. Liabilities (US$ thousands)



33. The most significant liabilities of the Organization were the future employee benefits accrued by staff members and retirees, representing 63 per cent of the total liabilities as at 31 December 2019. Deferred revenue was another significant liability component and primarily related to voluntary contributions received and receivable for both the ILO and ITC activities, for which performance obligations have not yet been achieved. The balance of the Organization's liabilities are made up of long-term borrowings and various operational payable and accrual amounts.

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

Figure 8. Liabilities, three-year comparison



Employee benefits

35. The ASHI liability at US$1,842.31 million, accounts for 96 per cent of the total employee benefits liability and represents the estimated cost of the employer's share of future healthcare premia in respect of all current retirees, as well as 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 healthcare 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.

36. The ASHI liability increased by US$248.37 million in 2019 primarily as a result of actuarial losses of US$179.34 million combined with higher current service and interest costs as detailed below:

Actuarial (gains) / losses (US$ thousands)	**2019**	**2018**
(Gain) / loss due to Experience	(6,762)	24,749
(Gain) / loss due to change in discount rate	279,373	(86,524)
(Gain) due to change in future increase in medical claims	(32,994)	(37,118)
(Gain) due to change in other actuarial assumptions	(60,282)	(240)
Total actuarial (gains)/losses recognized in net assets	**179,335**	**(99,133)**
Current service cost	69,114	64,689
Interest cost	25,391	22,144
Net benefits paid	(25,475)	(27,583)
Net ASHI expense recognized in the statement of financial performance	**69,030**	**59,250**
Total (decrease)/increase in ASHI liability	**248,365**	**(39,883)**

37. The most significant financial assumption change in 2019 was the reduction in discount rates for each of the major currencies in which ASHI benefits are paid. This resulting increase in the ASHI liability by US$279.37 million was partially offset by actuarial gains that resulted mainly from further reductions of future medical cost inflation (US$32.99 million).

38. Other actuarial assumptions include demographic assumptions updated in 2019 to reflect actual benefit claims experience studies. In 2019 the average benefit claim cost per insured member and the anticipated rate of eligible retirees and their dependents who elect ASHI coverage were reduced, giving rise to actuarial gains of US$70.29 million. These gains were partially offset by losses resulting from updates to UNJSPF assumptions for retirement and mortality rates (US$10.23 million).

39. Current service and interest costs are expenses representing the projected benefits earned by plan participants and the interest costs attributable to the projected benefit obligation during the current year.

40. The ASHI liability is considered as unfunded. However, an amount of US$61.80 million is available in a SHIF Guarantee Fund to cover future short-term liabilities of SHIF together with an additional amount of US$8.94 million accumulated in respect of the staff of development cooperation projects. 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.

Deferred revenue

41. The amounts recognized as deferred revenue liabilities under IPSAS are impacted by the timing differences between signing of donor agreements, receipt of funds from donors, and programming of the performance obligations by the development cooperation projects. The increase in deferred revenue in 2019 of US$194.22 million or 25 per cent compared to 2018 is a result of increased development cooperation activities during 2019. The approval of significant donor agreements and some large funds received near the end of the financial year explain the strong increase of this revenue deferral. The details on deferred revenue are provided in note 15 to the financial statements.

Long-term borrowings

42. Borrowings consist of two loans in Swiss francs made to the ILO from the Foundation for Buildings for International Organizations (FIPOI) for the construction and the subsequent renovation of the ILO’s headquarters building. The increase in borrowings in 2019 of US$21.15 million resulted from additional loan instalments received for the headquarters renovation during the year, offset by annual repayments of the headquarters construction loan.

Regular budget

43. The International Labour Conference, at its 106th Session (June 2017), approved an expenditure budget for the 2018–19 financial period amounting to US$784.12 million and an income budget for the period for the same amount, which at the budget rate of exchange for the period of CHF0.97 to the US dollar, resulted in total assessed contributions of CHF760.60 million.

44. The overall budgetary results for the second 12 months of the 2018–19 financial period and for the biennium are summarized in statement V-A with the details of contributions paid by Member States shown in note 33 to the financial statements.

45. The table below shows the expenditure and budget utilization percentages for the current and previous biennium:

Variance analysis by strategic outcome for 2016–19 (in US$ thousands)

	2016–17 Budget	2016–17 Actual	2016–17 Delivery	2018–19 Budget	2018–19 Actual	2018–19 Delivery
Part I – Ordinary budget						
A. Policymaking organs	53 817	51 562	95.8%	52 348	51 969	99.2%
B. Policy outcomes	634 052	632 191	99.7%	625 911	621 450	99.3%
C. Management services	66 377	66 377	100%	62 484	62 328	99.8%
D. Other budgetary provisions	45 338	42 393	93.5%	45 458	44 070	96.9%
Adjustment for staff turnover	(6 523)	–	0%	(6 420)	–	0%
Total Part I	**793 061**	**792 523**	**99.9%**	**779 817**	**779 817**	**100%**
Part II – Unforeseen expenditure	875	–	0%	875	868	99.2%
Part IV – Institutional investments and extraordinary items	3 454	3 454	100%	3 428	3 428	100%
Total Parts I, II and IV	**797 390**	**795 977**	**99.8%**	**784 120**	**784 113**	**100%**

46. The budgetary expenditure for the 2018–19 biennium is slightly higher than that of the 2016–17 biennium, with a budgetary delivery rate of 100 per cent for 2018–19 as compared to 99.82 per cent for 2016–17. The higher delivery rate in 2018–19 is a result of the improved planning, programming and delivery of the approved activities across the biennium, especially in respect to Centenary events which were funded from within the approved budget. Activities for additional items approved by the Governing Body during the biennium were covered in the first instance from savings in Part I of the budget. Notwithstanding this, unforeseen expenditure amounting to some US$0.87 million were also incurred. This comprised of additional expenditure items for the Standards Initiative that could not be absorbed under Part I and were charged against Part II in accordance with the decisions taken by the Governing Body in October 2017 (GB.331/INS/5 and GB.331/LILS/2(Add.)). The results-based delivery information related to the expenditures is reported biennially to the Governing Body and Conference through the ILO Programme Implementation Report at the conclusion of each biennium.

47. Statement V-A shows an excess of income over expenditure for the period at the budgetary rate of exchange amounting to US$7,099. Following revaluations, adjustments in respect of arrears of contributions received and reimbursement of the Working Capital Fund and internal borrowings, the deficit for budgetary purposes at the end of the biennium was US$76.42 million (CHF74.50 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$53.68 million (CHF52.34 million) received in 2020 (as of 31 March) have been used to reimburse fully the internal borrowings of US$40.52 million (CHF39.50 million) and partially the Working Capital Fund of US$13.17 million (CHF12.84 million).

48. 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 and in the appendix.

(US$ thousands)	Regular budget	CINTERFOR	ITC	Voluntary contribution activities	Subsidiary funds	Total
Net result per budgetary basis (Statement V)	(76 415)	129	3 517	–	–	(72 769)
IPSAS adjustments	74 358	(148)	(2 034)	–	–	72 176
Subsidiary funds	–	–	–	1 339	(34 876)	(33 537)
Net result per IPSAS basis	**(2 057)**	**(19)**	**1 483**	**1 339**	**(34 876)**	**(34 130)**

Other budgetary funds

49. As at 31 December 2019, the net assets of other funds managed by the ILO (ITC and CINTERFOR) amounted to US$19.39 million.

50. The overall results of those funds with budgets approved by the Governing Body or the Board of the ITC for 2019 are summarized in statements V-B and V-C. Information on the net assets of each fund is included in the appendix.

Voluntary contribution activities

51. Voluntary contribution activities include development cooperation projects and Regular Budget Supplementary Account (RBSA) projects, as well as gifts and grants. Expenditure recognized during 2019 on extra-budgetary development cooperation activities totalled US$279.99 million (US$245.43 million in 2018). In accordance with IPSAS, revenue is recognized and matched by the Office when earned though project delivery; hence the extra-budgetary development cooperation delivery rate is consistently 100 per cent in financial terms. The results show that the actual delivery measured by expenditure was higher by 14 per cent in 2019 as compared to 2018.

Subsidiary funds

52. 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 2019 the SHIF had a technical surplus of US$1.79 million, and a net operating surplus of US$1.06 million after a provision for advances, foreign exchange losses and sundry expenses were taken into consideration. SHIF investment income of US$4.56 million in 2019 offset by currency revaluation losses of US$87,918 resulted in an overall surplus of US$5.53 million. The net assets of the SHIF increased as a result to US$61.80 million as at 31 December 2019 (US$56.27 million in 2018).

53. Information on the net assets and annual results for all other subsidiary funds of the ILO is included in the appendix.

2. Statement of Internal Control for the year ended 31 December 2019

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 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 systems provide reasonable assurance regarding the achievement of objectives, compliance with regulations and policies, and reliable financial reporting. The ILO's Governing Body, the Director-General, the Treasurer and Financial Comptroller, senior management, and other significant personnel all play important parts in making this work effectively. 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 2019, and considers any relevant events up to the date of the approval of the Organization's consolidated 2019 financial statements.

ILO's operating environment

4. The ILO celebrated its 100th anniversary in 2019, and the Centenary Declaration for the Future of Work was adopted by the International Labour Conference at its 108th Session in June 2019. The Declaration calls for all member States and constituents to further develop the human-centred approach to the future of work, firstly by strengthening the capacities of all people to benefit from the opportunities of a changing world of work; secondly by strengthening the institutions of work to ensure adequate protection of all workers; and thirdly by promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

5. 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 present the ILO with opportunities and potential

risks. 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.

6. ILO managers of departments and offices in headquarters, regional offices, decent work teams and country offices are required to review and monitor on an ongoing basis the level of exposure to all risks relating to their functions and activities. Any risk after this initial review that is above the level of the Office's risk appetite is managed through a Risk Management Committee to senior management. This allows strategic decisions to be made if necessary to adapt operations, with due consideration given to specific mitigation measures taken at the United Nations common system level.

ILO's risk management and internal control frameworks

7. The ILO has an Enterprise Risk Management Framework, which is based on the following key elements:

- A six-step approach, comprising of (i) establishing context of the work through planning and programming; (ii) identifying potential areas of risks; (iii) describing and then prioritizing major risks; (iv) devising cost-effective means of benefitting from or mitigating the risk; (v) monitoring progress on the risk and the risk response; and (vi) bringing to the attention of 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 recommends changes to ILO's risk policy and framework (including revisions of its risk appetite when required), 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.

8. The key elements of ILO's 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

9. 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 (ILR)**, signed by my deputy directors-general, regional directors, departmental directors at headquarters, external office directors and selected managers of major 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. Taking into consideration the evolving operational circumstances, it is my intention to review the questions included in these disclosures on an annual basis from 2020, in order to ensure their continued relevance and applicability.
- **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 (IOAC).

Significant internal control matters arising during the year 2019

10. The 2019 ILRs were received from all directors and other managers. These provided significant assurance on the effective implementation of ILO's internal controls during 2019. No major control weaknesses were noted by the managers in their disclosures and no new areas were identified by them as requiring further improvements.

11. I have also reviewed the observations in the reports of internal and external auditors, the annual evaluation report, and the annual report of the IOAC to the Governing Body pertaining to the year 2019. I noted a number of recurring issues raised by these bodies and deemed it necessary to report them in this statement, so as to ensure that policies and procedures remain fit-for-purpose and their operational application continues to improve.

- **Due diligence in the delegated procurement process and oversight on the performances of contracted parties to be further strengthened.** The Office uses different types of contracts to engage technical services to deliver its programmatic outputs. External collaboration contracts, implementation agreements, and grant agreements are types of contracts not subject to commercial procurement procedures. They require managers to follow specially established procedures and justify the selection of the contracted parties. Internal and external audit, as well as investigation, reports have highlighted the need for more transparency and diligence in the selection of external collaborators and implementing partners, reinforced requirements for the management of grant agreements, close monitoring of the progress of their expected deliverables, and enhanced oversight on their performance. In this connection, the Office is in the process of updating its operational guidelines on the appropriate use of different contractual tools, as well as more specific eligibility and selection criteria for the contracted parties. A procedure for the timely referral of the performance issues related to these parties has also been established from 2019 onwards.
- **Efficiency in the management and internal coordination of development cooperation projects to be reinforced.** In EVAL's most recent biennial meta-analysis of development cooperation project evaluations, while noting a significant improvement in cost efficiency, a declining performance in project implementation management and internal coordination was also reported. Going forward, measures to reinforce project management and coordination would include more effective and

efficient recruitment of project staff, supported by concrete policy guidelines and practical operating procedures including appropriate controls over specific timelines and milestones. For the improvement of ongoing monitoring of progress in project implementation, the Office has created a Development Cooperation Management Support application, which includes a Reporting Module for projects to set up reporting schedules and manage compliance for both technical and financial reports, and for their close monitoring at a global level.

- **Adequate information technology infrastructure and coverage of IRIS at project locations to be ensured.** In 2019, the ILO's global enterprise management system (IRIS) has been rolled out to all offices across the world, leading to enhanced system control on operational transactions and increased availability of management information in support of better operational planning and monitoring and coordination. One of the important recommendations made by the Chief Internal Auditor and the IOAC was to develop a strategic approach to ensure the inclusion of future project locations in the centralized information technology framework. The Office has undertaken an analysis of this and will look at sustainable funding solutions in the formulation of project budgets, to ensure that this can be achieved on a systematic basis going forward.

Internal control matters carried forward from previous years

12. In 2019, the Office continued to implement measures to address the internal control matters reported in my statements of the past two years. In some areas, while progress has been made, further work is still required as per the results of the 2019 ILR disclosures. In other areas, significant improvements have been reflected positively in the 2019 ILR disclosures received from directors and other managers, and confirmed by the internal and external auditors, and the IOAC in their respective reports to the Governing Body. These are no longer deemed to be significant risks and will not be reported as from the next financial year, unless they resurface in the future as an area of concern.

Matters requiring further work or continued monitoring

- **Business Continuity Management strategy and tools.** In the 2019 ILR disclosures, managers continued to report different levels of business continuity preparedness, mainly due to changes of personnel and absence of regular simulation exercises. The situation has however changed since the end of 2019, due to the COVID-19 pandemic. The Office has rapidly reacted to the fast-evolving situation and developed a full set of comprehensive practical, organizational and institutional responses, including the changes to human resources, travel, and meeting policies, as well as corresponding procedures with a view to the safety of staff and continuity of operations. Key business processes have functioned smoothly, while keeping effective controls in place. The full impact of the business continuity measures will be assessed after the pandemic, and the comprehensive tools and plans used will be maintained for future references.

- **Advance travel planning.** The 2019 ILR disclosures continued to highlight some challenges related to compliance with Office requirement for travel plans to be established in advance and updated on a quarterly basis. Internal and external audit reports also highlighted deviations from the requirement for bookings to be made at least fourteen days in advance of the travel. In 2019, the Office undertook an overall review on the common causes of such deviations and its findings revealed scenarios such as unanticipated support requests from constituents, on-hold security clearances in specific countries, visa issues and back-to-back missions, etc. In response to this, the Office has developed and will deploy an application that will strengthen the approval and monitoring procedures for all mission travel and provide further training to staff to reinforce the rules.

- **Performance management.** In the 2019 ILR disclosures, 75 per cent of all managers reported a full compliance with the performance management cycles, a slight further improvement compared to that of 2018. However, managers continued to report a certain level of challenges. Going forward, the Office will further expand the peer coaching network among managers, and issue a detailed handbook to provide additional support for managers embarking on the process.

- **Workforce planning and skills development.** A number of managers continued to highlight in the 2019 ILR disclosures the importance of workforce planning and the need for skills development for staff to adapt to changing work environments. The IOAC also reiterated its recommendation for the training and redeployment of staff as a result of business process redesign, and for the ILO to adapt their skills to meet evolving needs. While continuing to invest in the well-defined leadership and staff development activities, the Office also submitted an action plan to the Governing Body for improving the diversity of the ILO workforce. This included initiatives related to skills development, such as the creation of talent pipelines in particular with young people, in order to reflect the changing nature of work and experience required in the modern globalized and networked economies. Going forward, more work needs to be done in this area.

Matters no longer deemed significant risk of internal control

- **Results-based management (RBM).** In 2019, in line with the long-term direction set by the Centenary Declaration, the Office developed its new results framework for 2020–21, which further strengthened the ILO's results-based management system through improved measurements, comprised of more clearly defined outputs and a better integration of the Sustainable Development Goals (SDGs). Indicators were defined at the output, outcome and impact levels, and means of verification for each of the indicators, including baselines and targets, were established for both the biennium and over a longer-time frame in line with the targets of the 2030 Agenda. The new results framework will further improve transparency and accountability for the delivery of results.

- **Risk management tools and practices.** In 2019, the Office continued to build institutional competence and capacity in risk management. In the new results framework, risk and mitigation measures were systematically considered under each of the policy outcomes, in addition to the strategic risk register at the organizational level. With regard to the provision of tools, a guidance document was issued on assessing, monitoring and reporting risk in the management of development cooperation projects in the field, and an online training module was rolled out to all staff, complemented by targeted online and face-to-face training sessions. A new round of Office-wide update of risk registers was launched at the end of the year, indicating that risk management has become a constant activity in the Office. As a matter of good practice this will be followed up by the Risk Management Committee in 2020, post COVID-19, to determine the level of adequacy of the current tools and practices.

- **Country-level financial operations.** In 2019, both the internal and external auditors continued to visit more field offices and report on their findings and recommendations to strengthen first-level controls in field financial operations. While country-specific issues have been addressed immediately, the Office also continued to take measures to improve the overall supervisory and monitoring controls at a more strategic level. The successful completion of IRIS rollout at the end of 2019 has significantly enhanced the oversight and accountability capacities at different levels. IRIS-based dashboards for managers and financial control officers (FCOs) have recently been deployed, which will ensure data transparency and timeliness in financial reporting and operational monitoring and oversight. The ILO Finance Manual has been and will continue to be adapted as necessary, providing up-to-date instructions on all aspects of financial operations, in particular those of external offices.

Conclusion

13. 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.

14. 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 were no material weaknesses during the year ended 31 December 2019 and up to the date of approval of the 2019 consolidated financial statements.

(Signed) Guy Ryder
Director-General

Geneva, 29 April 2020

3. Approval of the consolidated financial statements for the year ended 31 December 2019

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) Adnan Chughtai	*(Signed)* Guy Ryder
Treasurer and Financial Comptroller	Director-General
31 March 2020	31 March 2020

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 2019, 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 2019, 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 2019 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
1 June 2020

5. Consolidated financial statements for the year ended 31 December 2019

International Labour Organization

Statement I

Consolidated statement of financial position as at 31 December 2019 (US$ thousands)

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	4	309 624	359 359
Contributions receivable – Assessed	5	144 988	76 784
Contributions receivable – Voluntary	6	247 415	289 370
Derivative assets	7	798	9 257
Investments	8	340 000	275 000
Other receivables	9	8 919	9 577
Inventories	10	4 446	4 114
Other current assets	11	30 494	18 432
		1 086 684	1 041 893
Non-current assets			
Contributions receivable – Assessed	5	6 979	8 405
Contributions receivable – Voluntary	6	247 760	93 319
Investments	8	240 920	229 212
Property and equipment	12	550 367	579 266
Investment property	13	149 108	–
Intangible assets	14	2 363	1 878
		1 197 497	912 080
Total assets		**2 284 181**	**1 953 973**
Liabilities			
Current liabilities			
Payables and accruals		47 762	38 568
Deferred revenue	15	718 538	678 600
Employee benefits	16	56 688	60 846
Current portion of long-term borrowings	17	6 053	3 751
Due to Member States	18	2 505	11 132
Other current liabilities	19	6 255	11 835
Derivative liabilities	7	1 424	85
		839 225	804 817
Non-current liabilities			
Deferred revenue	15	247 605	93 319
Employee benefits	16	1 867 179	1 618 291
Long-term borrowings	17	82 822	63 979
Derivative liabilities	7	1 120	–
Due to Member States	18	15 839	2 924
		2 214 565	1 778 513
Total liabilities		**3 053 790**	**2 583 330**
Net assets			
Reserves	20	151 208	213 489
Accumulated balances	20	(920 817)	(842 846)
Total net assets		**(769 609)**	**(629 357)**

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 2019

(US$ thousands)

	Note	2019	2018
Revenue			
Assessed contributions	26, 31	385 772	386 794
Voluntary contributions	26	294 531	261 134
ITC training services	26	18 662	16 431
Staff/retiree benefit contributions		22 215	21 731
Sales and royalties		13 883	12 333
Investment income		20 735	7 615
Other income		2 438	2 323
Total revenue		**758 236**	**708 361**
Expenses			
Salaries, employee benefits and other personnel costs	21	455 880	439 538
Travel	21	29 475	27 293
Subcontracts	21	144 085	113 301
General operating expenses	21	46 593	45 225
Supplies, materials and small equipment	21	10 988	7 090
Depreciation and amortization	21	9 916	9 649
Seminars, workshops and other training	21	43 831	34 301
Staff development	21	3 972	4 201
Health benefits	21	47 471	48 132
Contributions and grants in aid	21	11 427	9 309
Finance expenses	21	2 044	1 936
Other expenses	21	2 862	2 120
Total expenses		**808 544**	**742 095**
Foreign exchange gains/(losses)		16 178	3 502
Net surplus (deficit)		**(34 130)**	**(30 232)**

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 2019

(US$ thousands)

	Note	Reserves	Accumulated balances	Total net assets
Balance as at 31 December 2017		**147 036**	**(815 651)**	**(668 615)**
Surplus (deficit) for the year 2018		5 183	(35 415)	(30 232)
Repayment of internal borrowing for financing of regular budget deficit		69 386	(69 386)	–
Change of derivatives		–	(809)	(809)
Change of revaluation surplus of land and buildings		–	(23 493)	(23 493)
Actuarial gain (loss) of employee benefit liabilities		–	102 213	102 213
SHIF guarantee fund payout to ITU		(7 517)	–	(7 517)
Translation difference from consolidation of ITC		(599)	(305)	(904)
Total 2017 movement		**66 453**	**(27 195)**	**39 258**
Balance as at 31 December 2018	20	**213 489**	**(842 846)**	**(629 357)**
Surplus (deficit) for the year 2019		14 185	(48 315)	(34 130)
Internal borrowing for financing of regular budget deficit		(76 415)	76 415	–
Transfer of liabilities due to Member States of period 2019		–	(15 079)	(15 079)
Change of derivatives		–	(12 772)	(12 772)
Change of revaluation surplus of land and buildings		–	99 690	99 690
Actuarial gain (loss) of employee benefit liabilities		–	(178 504)	(178 504)
Translation difference from consolidation of ITC		(51)	594	543
Total 2019 movement		**(62 281)**	**(77 971)**	**(140 252)**
Balance as at 31 December 2019	20	**151 208**	**(920 817)**	**(769 609)**

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 2019 (US$ thousands)

	Note	2019	2018
Cash flows from operating activities			
Surplus (deficit) for the year		(34 130)	(30 232)
Non-cash movements:			
Depreciation and amortization		9 916	9 649
(Increase) decrease in contributions receivable – Assessed		(66 778)	60 653
(Increase) decrease in contributions receivable – Voluntary		(112 486)	3 259
(Increase) decrease in derivative instruments		(1 855)	(2 566)
(Increase) decrease in investment portfolios		(11 443)	(1 106)
(Increase) decrease in other receivables		658	(33)
(Increase) decrease in inventories		(332)	250
(Increase) decrease in other assets		(12 062)	(278)
Increase (decrease) in payables and accruals		9 194	(18 268)
Increase (decrease) in deferred revenue		194 224	79 196
Increase (decrease) in employee benefits		66 224	64 023
Increase (decrease) in due to Member States		4 288	(78)
Increase (decrease) in other liabilities		(5 580)	2 071
Increase (decrease) in borrowings		726	295
Gain on investment property and disposal of assets		(2 619)	(7)
Effect of exchange rates on cash and cash equivalents		(3 094)	3 454
Transfer to liabilities due to Member States from net assets		(15 079)	–
Transfer to ITU from net assets		–	(7 517)
Net cash flows from operating activities		**19 772**	**162 765**
Cash flows from investing activities			
Proceeds from sale of investments	8	489 735	277 184
Purchase of investments	8	(555 000)	(405 000)
Additions of property and equipment	12	(27 458)	(50 441)
Proceeds from disposals of property and equipment		64	442
Additions of intangible assets	13	(1 087)	(193)
Net cash flows from investing activities		**(93 746)**	**(178 008)**
Cash flows from financing activities			
Repayment of borrowings	17	(3 706)	(3 717)
Proceeds from new borrowing	17	24 126	40 499
Net cash flows from financing activities		**20 420**	**36 782**
Effect of exchange rates on cash and cash equivalents		3 819	(4 087)
Net increase (decrease) in cash and cash equivalents		**(49 735)**	**17 452**
Cash and cash equivalents, beginning of period	4	**359 359**	**341 907**
Cash and cash equivalents, end of period	4	**309 624**	**359 359**

US$8.5 million of interest received is included in the net cash flows from operating activities (2018 = US$5.3 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 2019
(US$ thousands)

	2019 original budget [2]	2019 final budget [3]	2019 actual	2019 difference [4]	2018–19 original and final budget	2018–19 actual	2018–19 difference [4]
Revenue							
Assessed contributions	392 060	392 060	392 060	–	784 120	784 120	–
Total revenue	**392 060**	**392 060**	**392 060**	**–**	**784 120**	**784 120**	**–**
Expenses							
Part I – Ordinary budget							
A. Policymaking organs	26 192	26 838	26 423	415	52 384	51 969	415
B. Policy outcomes	312 956	334 426	329 965	4 461	625 911	621 450	4 461
C. Management services	31 242	33 007	32 851	156	62 484	62 328	156
D. Other budgetary provisions	22 729	22 988	21 600	1 388	45 458	44 070	1 388
Adjustment for staff turnover [5]	(3 210)	(6 420)	–	(6 420)	(6 420)	–	(6 420)
Total Part I	389 909	410 839	410 839	–	779 817	779 817	–
Part II – Unforeseen expenditure	437	875	868	7	875	868	7
Part IV – Institutional investments and extraordinary items	1 714	–	–	–	3 428	3 428	–
Total expenses (Parts I, II and IV)	**392 060**	**411 714**	**411 707**	**7**	**784 120**	**784 113**	**7**
Surplus at budgetary rate of exchange						**7**	
Revaluation of the budgetary surplus						–	
Surplus at UN operational rate of exchange						**7**	
Deficit resulting from the receipt of contributions in an amount lower than approved regular budget						(6 040)	
Reimbursement of 2016–17 deficit financing [6]						(70 382)	
Net surplus (deficit) [7]						**(76 415)**	

[1] Budget and actual information calculated at budgetary rate of exchange of US$1 = CHF0.97.

[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.

[4] Significant differences between budget and actual are explained in the accompanying financial report on the 2019 accounts.

[5] 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.

[6] As of 31 December 2017, in accordance with article 21.1(a) of the Financial Regulations, the deficit of CHF68.62 million was covered by the Working Capital Fund and internal borrowings. In accordance with article 21.2(a) of the Financial Regulations arrears of contributions received in 2018 were used to reimburse the Working Capital Fund.

[7] 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 CHF35.00 million was, as a consequence, fully exhausted. The Director-General had recourse to internal borrowing for the balance of the shortfall amounting to CHF39.50 million. In accordance with article 21.2(a) of the Financial Regulations, arrears of contributions received in 2020 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 2019 (US$ thousands)

	2019 original budget [1]	2019 final budget [2]	2019 actual	2019 difference	2018–19 original and final budget	2018–19 actual	2018–19 difference
Accumulated balance, beginning	692	1 366	1 366	–	818	1 191	373
Revenue							
Contribution from ILO regular budget	1 219	1 219	1 219	–	2 437	2 437	–
Contribution from host country and other countries in the region	300	338	334	(4)	600	595	(5)
Other contributions	125	(179)	365	544	250	795	545
Sales of publications and services	10	20	–	(20)	20	–	(20)
Miscellaneous income	5	(5)	25	30	10	40	30
Total revenue	**1 659**	**1 393**	**1 943**	**550**	**3 317**	**3 867**	**550**
Expenses							
Expenditure	1 785	1 820	1 989	(169)	3 569	3 738	(169)
Total expenses	**1 785**	**1 820**	**1 989**	**(169)**	**3 569**	**3 738**	**(169)**
Net surplus (deficit)	**(126)**	**(427)**	**(46)**	**381**	**(252)**	**129**	**381**
Accumulated balance, ending	**566**	**939**	**1 320**	**381**	**566**	**1 320**	**754**

[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 2019

	2019 Original and final budget [1]	2019 Actual	2019 Variance [2]	2018–19 Original and final budget	2018–19 Actual	2018–19 Variance
	(in € thousands)					
Revenue						
Voluntary contributions	11 533	11 767	234	23 067	23 371	304
Earned income	29 223	30 591	1 368	56 275	55 804	(471)
Use of surplus	750	598	(152)	1 500	1 157	(343)
Total budget revenue	**41 506**	**42 956**	**1 450**	**80 842**	**80 332**	**(510)**
Expenditure						
Fixed expenditure	22 697	22 442	255	44 501	43 913	588
Variable expenditure	18 531	18 130	401	35 741	32 929	2 812
Contingency	300	–	300	600	–	600
Total expenditure	**41 528**	**40 572**	**956**	**80 842**	**76 842**	**4 000**
Budget surplus [3]	**(22)**	**2 384**	**2 406**	**–**	**3 490**	**3 490**
Other items						
Doubtful accounts	–	153	(153)	–	237	(237)
Exchange gain (loss) and revaluation, net	–	92	(92)	–	164	(164)
Total other items	**–**	**245**	**(245)**	**–**	**401**	**(401)**
Net budget surplus [3]	**(22)**	**2 139**	**2 161**	**–**	**3 089**	**3 089**
	(in US$ thousands)					
Net budget surplus [4]	**(25)**	**2 395**	**2 420**	**–**	**3 517**	**3 517**

[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, variable budget and project staff variable expenditure as well as 52 per cent of the approved budget for training and media production revenue and total variable expenditure excluding variable budget and project staff. It also includes 50 per cent of the approved budget for the contingency. A small deficit is shown due to rounding in 2018 and 2019.

[2] Budget variances are explained in the accompanying financial report on the 2019 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 = €0.8930 for the reporting period (US$1 = €0.8468 for 2018).

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

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, extrabudgetary 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.

Financial period

9. 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

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

Measurement uncertainty

11. 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

12. 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

13. 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

14. The accounts of the ITC have been consolidated into the consolidated financial statements of the ILO.

15. 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

16. 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

17. 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.

18. 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

19. 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

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

Post-employment benefits

21. 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 (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.

22. The Fund 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 Fund. The ILO and the Fund, 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 39 – Employee Benefits. The ILO's contributions to the Fund during the financial period are recognized as expenses in the consolidated statement of financial performance.

23. 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 benefits are established in accordance with the Staff Regulations of the ILO and the ITC, and the SHIF Regulations and Administrative Rules. Management of the SHIF is the responsibility of a Management Committee consisting of members representing both insured persons and the Director-General of the ILO. This insurance scheme is not subject to any outside regulatory framework.

24. 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. The principal actuarial risks faced by the plans are changes to discount rates, rates of future medical cost increases and longevity of members.

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.

Other employee benefits

26. Other 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 (for example annual leave), and other short-term benefits (for example education grant and home leave) established in accordance with the Staff Regulations of the ILO and the ITC. An expense is recognized

when employees render service to the Organization and current or non-current liabilities are recognized for any entitlements that have not been settled at the reporting date.

Foreign currency transactions

27. 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.

28. 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.

29. 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.

30. Exchange gains and losses 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.

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

Impairment

32. 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

33. 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

34. Intangible assets are recognized at historical cost and amortized over their useful life 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

35. Investments are designated as financial assets at fair value through surplus or deficit upon initial recognition, and subsequently 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

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

37. 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.

38. 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

39. 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

40. 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.

41. 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

42. 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.

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

44. Property and equipment are derecognized either on disposal or when they are permanently withdrawn from use and no future economic benefit or service potential is expected. 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.

45. 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

46. 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.

47. 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

48. 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

49. 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.
- *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 2019

50. IPSAS 40 – Public Sector Combinations standard, effective 1 January 2019. provides accounting requirements that specifically address the needs of the public sector when accounting for combinations of entities and operations. This standard was adopted with no impact on the consolidated financial statements.

New accounting standards issued but not yet effective

51. The International Public Sector Accounting Standards Board (IPSASB) has also published the following new and amended standards:

- IPSAS 42 – Social Benefits, effective 1 January 2022. This standard defines social benefits as cash transfers to individuals to mitigate the effect of social risks and address the needs of society as a whole, and provides guidance for their accounting. This standard will have no impact on the consolidated financial statements.
- IPSAS 41 – Financial Instruments and subsequent amendment, effective 1 January 2022. This standard will replace the existing IPSAS 29 – Financial Instruments and sets out new requirements for recognition and measurement of financial instruments, including impairment, derecognition and general hedge accounting. The ILO does not foresee a significant impact on the consolidated financial statements resulting from this standard.
- IPSAS 36 – Investments in Associates and Joint Ventures was consequentially amended effective 1 January 2022, through the issuance of IPSAS 41 – Financial Instruments. These amendments will have no impact on the consolidated financial statements.
- IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets was amended to provide requirements for governments when committing to provide future collective and individual services to address the needs of society as a whole. The amendments are effective 1 January 2022, and are not anticipated to have any effect on the consolidated financial statements.

Note 4 – Cash and cash equivalents

52. 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$ thousands)	US$	CHF	€	Other	2019 total	2018 total
Cash	79 088	108 419	9 148	12 744	209 399	265 655
Cash equivalents	77 265	20 513	2 447	–	100 225	93 704
Total cash and cash equivalents	**156 353**	**128 932**	**11 595**	**12 744**	**309 624**	**359 359**

53. Cash and cash equivalents balances include US$8.51 million in interest revenue, of which US$7.84 million was earned through short-term deposits (note 8).

Note 5 – Contributions receivable – Assessed contributions

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

(US$ thousands)	2019	2018
Assessed contribution receivable (notes 32, 33)	175 659	110 303
Less: Advance payments received from Member States with financial arrangement (note 32)	(1 285)	(2 013)
Less: Amortization of long-term financial arrangements	(561)	(791)
Less: Provision for doubtful collection of contributions	(21 846)	(22 310)
Total net receivable – Assessed contributions	**151 967**	**85 189**
■ Contributions receivables – Assessed contributions – Current	144 988	76 784
■ Contributions receivables – Assessed contributions – Non-current	6 979	8 405

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

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

(US$ thousands)	2019	2018
Less than 1 year	154 479	75 690
1–2 years	13 203	6 347
Over 2 years	6 692	26 253
Less provision for doubtful debts and amortization	(22 407)	(23 101)
Total net receivable	**151 967**	**85 189**

Note 6 – Contributions receivable – Voluntary contributions

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

(US$ thousands)	2019	2018
Voluntary contributions receivable – Current		
Development cooperation projects (all with conditions)	238 116	282 064
ITC training services	9 299	7 306
Subtotal voluntary contributions receivable – Current	**247 415**	**289 370**
Voluntary contributions receivable – Non-current		
Development cooperation projects (all with conditions)	240 158	86 101
ITC training services	7 602	7 218
Subtotal voluntary contributions receivable – Non-current	**247 760**	**93 319**
Total voluntary contributions receivable	**495 175**	**382 689**

Note 7 – Derivative assets and liabilities

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

(US$ thousands)	2019	2018
Derivative assets		
SHIF forward purchase agreement – Current	798	–
ILO regular budget forward purchase agreement – Current	–	9 257
Total derivative assets	**798**	**9 257**
Derivative liabilities		
SHIF forward purchase agreement – Current	–	(85)
ILO regular budget forward purchase agreement – Current	(1 424)	–
ILO regular budget forward purchase agreement – Non-current	(1 120)	–
Total derivative liabilities	**(2 544)**	**(85)**
Total derivative net asset (liability) position	**(1 746)**	**9 172**

59. 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$ thousands)
SHIF forward purchase agreement	Within the next three months	46 634
ILO regular budget forward purchase agreement	Within the next 12 months	169 454
ILO regular budget forward purchase agreement	Within the following 12 months	176 910

SHIF forward purchase agreement

60. The risk related to financial assets held on behalf of SHIF in currencies other than Swiss franc and US$ (up to a 35 per cent level, with a tolerance of +/- 5 per cent) 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

61. 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

62. 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.

63. 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$ thousands)	2019	2018
Fair value as at 1 January	9 220	7 345
Derivatives exercised during the period and recognized in net asset	(3 415)	(2 062)
Derivatives exercised during the period and recognized in surplus (deficit)	(5 805)	(3 122)
Change in fair value of the spot element recognized in net assets	(9 358)	1 253
Change in fair value of the forward element recognized in surplus (deficit)	6 814	5 806
Total fair value as at 31 December	**(2 544)**	**9 220**

64. The cash flow hedges were highly effective in 2019. 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$ thousands)	2019	2018
Opening balance as at 1 January (note 20)	**3 415**	**4 223**
Reclassification during the year to exchange gain (loss) and revaluation, net (effective hedge of the spot element – transactions realized during the period)	(3 415)	(2 061)
Net gain (loss) during the year recognized in net assets (effective hedge of the spot element – forecasted transactions)	(9 358)	1 253
Closing balance as at 31 December (note 20)	**(9 358)**	**3 415**

65. The amounts retained in net assets as at 31 December 2019 are expected to mature and affect the consolidated statement of financial performance in 2020 and 2021.

Note 8 – Investments

66. 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 as part of a portfolio investment which is intended to be kept for the long term and reinvested.

67. 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.

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

(US$ thousands)	2019		2018	
	Fair value	Cost	Fair value	Cost
Investments – Current				
ILO short-term deposit	340 000	340 000	275 000	275 000
Subtotal investment – Current	**340 000**	**340 000**	**275 000**	**275 000**
Investments – Non-current				
Cash within the portfolios	390	390	7 516	7 516
Fixed income				
Bonds	–	–	61 957	61 533
Floating rate notes	11 136	11 141	24 281	24 331

(US$ thousands)	2019		2018	
	Fair value	Cost	Fair value	Cost
Money market	41 427	41 272	25 448	25 338
Total fixed income investments	52 563	52 413	111 686	111 202
Unit funds	187 967	176 168	110 010	105 950
Subtotal investment – Non-current	**240 920**	**228 971**	**229 212**	**224 668**
Total investment	**580 920**	**568 971**	**504 212**	**499 668**

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

(US$ thousands)	2019	2018
Fair value at 1 January	**504 212**	**375 291**
Investment income	20 066	7 085
Investment income transferred to cash balances	(7 841)	(4 296)
Other gains and losses	(782)	(1 759)
New investment during the period	555 000	405 000
Disposal of investments during the period	(489 735)	(277 109)
Fair value at 31 December	**580 920**	**504 212**

Note 9 – Other receivables

70. Other receivables are as follows:

(US$ thousands)	2019	2018
US income taxes receivable	3 169	3 130
Accrued interest and investment income	1 606	2 756
VAT and other withholding taxes receivable	1 856	1 922
Other accrued income and amounts receivables	2 288	1 769
Total other receivables	**8 919**	**9 577**

Other accrued income and amounts receivable are attributable to rental activities, Administrative Tribunal billings, and miscellaneous reimbursements due to the ILO.

71. An ageing of other receivables is as follows:

(US$ thousands)	2019	2018
Less than 1 year	7 486	8 620
1–2 years	513	419
Over 2 years	920	538
Total net receivable	**8 919**	**9 577**

Note 10 – Inventories

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

(US$ thousands)	Production supplies	Publications	2019 total	2018 total
Balance as at 1 January	**297**	**3 817**	**4 114**	**4 392**
Produced and purchased	320	5 851	6 171	5 340
Inventory available	617	9 668	10 285	9 732
Less: Expensed	(359)	(3 096)	(3 455)	(3 681)
Less: Write-down	–	(619)	(619)	(500)
Less: Write-off	(4)	(1 758)	(1 762)	(1 430)
Foreign exchange differences on translation	(3)	–	(3)	(7)
Balance as at 31 December	**251**	**4 195**	**4 446**	**4 114**

Note 11 – Other current assets

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

(US$ thousands)	2019	2018
Prepaid expenses	20 827	9 619
Staff advances	7 865	6 835
Other	1 802	1 978
Total other current assets	**30 494**	**18 432**

Note 12 – Property and equipment

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

(US$ thousands)	Land	Buildings	Leasehold	Equipment	Total
Net carrying amount at 31 Dec. 2017	**312 270**	**234 328**	**8 135**	**7 152**	**561 885**
Additions	–	50 208	–	234	50 442
Depreciation	–	(5 791)	(698)	(2 251)	(8 740)
Disposals – carrying amount	(257)	–	–	(620)	(877)
Disposals – accumulated depreciation	–	–	–	442	442
Net revaluation recognized in net assets	(12 319)	(11 174)	–	–	(23 493)
Foreign exchange differences on translation	–	–	(334)	(59)	(393)
Subtotal 2018 movement	**(12 576)**	**33 243**	**(1 032)**	**(2 254)**	**17 381**
Closing balance 31 Dec. 2018	**299 694**	**267 571**	**7 103**	**4 898**	**579 266**
Gross carrying amount 31 Dec. 2018	299 694	267 571	12 932	13 478	593 675
Accumulated depreciation	–	–	(5 829)	(8 580)	(14 409)
Net carrying amount 31 Dec. 2018	**299 694**	**267 571**	**7 103**	**4 898**	**579 266**
Additions	–	26 375	85	998	27 458
Depreciation	–	(7 072)	(659)	(1 585)	(9 316)
Disposals – carrying amount	–	–	–	(181)	(181)

(US$ thousands)	Land	Buildings	Leasehold	Equipment	Total
Disposals – accumulated depreciation	–	–	–	181	181
Transfer to investment property	(146 552)	–	–	–	(146 552)
Net revaluation recognized in net assets	105 944	(6 254)	–	–	99 690
Foreign exchange differences on translation	–	–	(154)	(25)	(179)
Subtotal 2019 movement	**(40 608)**	**13 049**	**(728)**	**(612)**	**(28 899)**
Closing balance 31 Dec. 2019	**259 086**	**280 620**	**6 375**	**4 286**	**550 367**
Gross carrying amount 31 Dec. 2019	259 086	280 620	12 743	14 238	566 687
Accumulated depreciation	–	–	(6 368)	(9 952)	(16 320)
Net carrying amount 31 Dec. 2019	**259 086**	**280 620**	**6 375**	**4 286**	**550 367**

Land and buildings

75. The Organization owns its headquarters building in Geneva, Switzerland, and the land upon which it was built along with an adjoining plot. In 2018, 675 square meters of access road occupying ILO land was sold by the ILO and the proceeds contributed to the funding of the ongoing headquarters building renovation project.

76. At its 337th Session in October–November 2019, the Governing Body confirmed its decision to sell one additional vacant plot of land to partially fund the ongoing building renovation project. Following the change in use, starting from November 2019, this plot of land has been transferred from property and equipment to investment properties (note 13), pending the completion of the contractual terms of the sale as at 31 December 2019. The related transfer is presented as “Transfer to investment property” under “Land”.

77. 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).

78. 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 2019 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 2019 includes US$4.38 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)	2019	2018
Land		
Headquarters – Geneva	250 411	290 879
Lima	3 970	3 881
Abidjan	469	584
Santiago	4 236	4 349
Total Land	**259 086**	**299 693**
Buildings		
Headquarters - Geneva	255 558	242 614

US$ (thousands)	2019	2018
Lima	12 572	12 290
Brasilia	1 229	375
Abidjan	2 655	3 312
Dar es Salaam	1 988	2 233
Buenos Aires	524	339
Islamabad	455	478
Santiago	4 869	5 248
Brussels	770	682
Total buildings	**280 620**	**267 571**
Total land and buildings	**539 706**	**567 264**

79. The final one third of the headquarter building in Geneva was under renovation in 2019. In addition, renovation works are being carried out on the building owned by the ILO in Brasilia. The related capital expenditures are presented as “Additions” to “Buildings”.

Leasehold improvements

80. 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 13 – Investment property

81. The fair value of the property as at 31 December 2019, and at the date of the transfer 1 November 2019, were reviewed by an accredited independent valuer based on the international valuation standards as promulgated by the International Valuation Standards Committee, including assumption relating to current market conditions.

US$ (thousands)	2019
Opening balance at 1 January	–
Transfer from land and buildings	146 553
Fair value adjustment resulting from net exchange differences	2 555
Closing balance at 31 December	**149 108**

Note 14 – Intangible assets

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

(US$ thousands)	Software acquired externally	Software internally developed	Total
Net carrying amount at 31 December 2017	**640**	**1 901**	**2 541**
Additions	8	206	214
Amortization	(235)	(636)	(871)
Foreign exchange differences on translation	(3)	(3)	(6)
Subtotal 2018 movement	**(230)**	**(433)**	**(663)**
Closing balance at 31 December 2018	**410**	**1 468**	**1 878**

(US$ thousands)	Software acquired externally	Software internally developed	Total
Gross carrying amount 31 December 2018	1 238	3 620	4 858
Accumulated amortization	(828)	(2 152)	(2 980)
Net carrying amount 31 December 2018	**410**	**1 468**	**1 878**
Additions	–	1 087	1 087
Amortization	(192)	(408)	(600)
Foreign exchange differences on translation	(1)	(1)	(2)
Subtotal 2019 movement	**(193)**	**678**	**485**
Closing balance at 31 December 2019	**217**	**2 146**	**2 363**
Gross carrying amount 31 December 2019	1 233	4 702	5 935
Accumulated amortization	(1 016)	(2 556)	(3 572)
Net carrying amount 31 December 2019	**217**	**2 146**	**2 363**

Note 15 – Deferred revenue

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

(US$ thousands)	Current	Non-current	Total 31 Dec. 2019	Total 31 Dec. 2018
Assessed contributions received in advance	39 996	–	39 996	40 797
Voluntary contributions receivable for signed agreements	273 708	240 159	513 867	370 151
Due to donors (including ITC)	396 564	–	396 564	347 233
Receivables for signed agreements for ITC training services	7 482	7 446	14 928	12 952
SHIF contributions received in advance	678	–	678	689
Other deferred revenue	110	–	110	97
Total deferred revenue	**718 538**	**247 605**	**966 143**	**771 919**

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

Note 16 – Employee benefits

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

(US$ thousands)	Current	Non-current	Total 31 Dec. 2019	Total 31 Dec. 2018
Education grant	789	–	789	5 511
Accumulated leave and home leave	23 465	12 222	35 687	35 080
Repatriation entitlements	4 791	40 295	45 086	44 606
ASHI liability	27 643	1 814 662	1 842 305	1 593 940
Total employee benefits liabilities	**56 688**	**1 867 179**	**1 923 867**	**1 679 137**

Post-employment benefits

United Nations Joint Staff Pension Fund

86. 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.

87. The ILO's financial obligation to the Fund 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 Pension 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.

88. The latest actuarial valuation for the Fund was completed as of 31 December 2017, and the valuation as of 31 December 2019 is currently being performed. A roll forward of the participation data as of 31 December 2017 to 31 December 2018 was used by the Fund for its 2018 financial statements.

89. The actuarial valuation as of 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent. The funded ratio was 102.7 per cent when the current system of pension adjustments was taken into account.

90. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2017, 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 plan. 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.

91. Should article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the Fund, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2016, 2017 and 2018) amounted to US$7,131.56 million, of which 2.2 per cent was contributed by the ILO.

92. During 2019, the ILO's contributions paid to the Fund amounted to US$56.64 million (US$52.01 million in 2018). Expected contributions due in 2020 are US$59.48 million.

93. Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between

the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

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

After-service health insurance plan (ASHI)

95. An actuarial valuation carried out in 2019 calculated the ILO's estimated liability for after-service medical benefits at the reporting date as described in the following paragraphs.

96. 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 2019 valuation, the assumptions and methods used are as described below.

Key financial assumptions		**2019** (%)	**2018** (%)
Discount rate			
	ILO	0.83	1.57
	ITC	1.47	2.30
	ISSA	0.45	1.09
Rate of future compensation increases		3.50 + UNJSPF salary scale	3.50 + UNJSPF salary scale
Rate of pension increases		2.50	2.50
Medical inflation		3.40 decreasing by 0.10 per year to 3.10	3.50 decreasing by 0.10 per year to 3.20

97. 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. The weighted average duration of the defined benefit obligation based on the plan census data and key assumptions is 22.8 years (21.8 years in 2018).

98. Should the assumptions about medical cost trends described above change, this would impact the measurement of the ASHI defined benefit obligation (DBO) as follows:

Sensitivity information for health-care trend (US$ thousands)	**2019**	**2018**
1 percentage point increase in health-care trend rate		
Effect on service and interest costs	40 171	36 700
Effect on defined benefit obligation	516 677	432 500
1 percentage point decrease in health-care trend rate		
Effect on service and interest costs	(28 421)	(26 400)
Effect on defined benefit obligation	(390 691)	(330 000)

99. The sensitivity of the ASHI DBO to changes in other key assumptions is as follows:

Sensitivity information for other key assumptions (% change)	2019 (%)	2018 (%)
Effect on defined benefit obligation:		
Discount rate + 1 percentage point	(19.7)	(18.9)
Discount rate – 1 percentage point	26.9	25.5
Effect on defined benefit obligation:		
Life expectancy + 1 year	5.5	4.4
Life expectancy – 1 year	(3.5)	(3.5)

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

(US$ thousands)	2019	2018
Defined benefit obligation, opening balance	**1 593 940**	**1 633 823**
Current service cost	69 114	64 689
Interest cost	25 391	22 144
Net benefits paid	(25 475)	(27 583)
Total costs recognized in the consolidated statement of financial performance	**69 030**	**59 250**
Actuarial (gain) loss due to experience	(6 762)	24 749
Actuarial (gain) loss due to financial assumption changes	246 161	(123 882)
Actuarial (gain) loss due to demographic assumption changes	(60 064)	–
Total actuarial (gain) loss recognized directly in the consolidated statement of changes in net assets	**179 335**	**(99 133)**
Defined benefit obligation, closing balance	**1 842 305**	**1 593 940**

101. Expenses related to interest cost and current services costs for 2019 have been recognized net of benefits paid in the consolidated statement of financial performance as staff costs. Cumulative net actuarial losses of US$1,005.41 million (cumulative net actuarial loss of US$826.08 million as of 31 December 2018) have been recognized directly against net assets. In accordance with IPSAS 39, no plan assets have been offset against the liability, however, an amount of US$61.80 million is available in a SHIF Guarantee Fund (US$56.27 million as at 31 December 2018) to cover future liabilities of SHIF. In addition, an amount of US$8.94 million has been accumulated to partially fund the ASHI liability. The total contribution paid to this ASHI liability reserve in 2019 was US$1.57 million (US$1.29 million in 2018).

102. The ILO finances its ASHI liability on a pay-as-you-go basis. The Programme and Budget for 2020–21 includes a provision of US$30.10 million for this purpose.

Repatriation entitlements

103. An actuarial valuation carried out in 2019 calculated the ILO’s estimated liability for repatriation entitlements at the reporting date as described in the following paragraphs.

104. 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 2019 valuation, the assumptions and methods used are as described below.

Key financial assumptions	2019 (%)	2018 (%)
Discount rate	Repatriation entitlement: 3.03 End of service payment: 0.60	Repatriation entitlement: 4.19 End of service payment: 1.40
Rate of future compensation increases:	3.50 + UNJSPF salary scale	3.50 +UNJSPF salary scale
Rate of future cost increases: Repatriation travel and removal costs	ILO rate: 1.1 ITC rate: 1.8	ILO rate: 1.2 ITC rate: 1.8
Probability of benefit claim	ILO repatriation grant: 65 ITC Repatriation grant: 98	ILO repatriation grant: 74 ITC Repatriation grant: 98
	ILO travel and removal: 74 ITC travel and removal: 98	ILO travel and removal: 81 ITC travel and removal: 98

105. 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 2019.

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

(US$ thousands)	2019	2018
Defined benefit obligation, opening balance	**44 606**	**46 401**
Current service cost	2 759	2 783
Interest cost	1 462	1 350
Net benefits paid	(2 534)	(2 535)
Total costs recognized in the consolidated statement of financial performance	**1 687**	**1 598**
Actuarial (gain) loss due to experience	(976)	(1 050)
Actuarial (gain) loss due to demographic assumption changes	(3 833)	113
Actuarial (gain) loss due to financial assumption changes	3 840	(1 955)
Total actuarial (gain) loss recognized directly in the consolidated statement of changes in net assets	**(969)**	**(2 892)**
Foreign currency exchange rate changes	**(238)**	**(501)**
Defined benefit obligation, closing balance	**45 086**	**44 606**

107. Expenses related to interest cost and current services costs for 2019 have been recognized net of benefits paid in the consolidated statement of financial performance as staff costs. Cumulative net actuarial gains of US$8.29 million (cumulative net actuarial gains of US$7.32 million as at 31 December 2018) have been recognized in net assets. In accordance with IPSAS 39, no plan assets have been offset against the liability, however, an amount of US$51.81 million has been accumulated by the ILO in the Terminal Benefits Fund (US$47.12 million as at 31 December 2018) to partially cover the repatriation grant. The total contribution paid to this Terminal Benefits Fund in 2019 was US$5.15 million (US$4.76 million in 2018).

Note 17 – Borrowings

108. Borrowings consist of two loans in Swiss francs made to the ILO from the Foundation for Buildings for International Organisations (FIPOI). Drawdowns on the first

loan began in 1967 for the construction of the ILO's headquarters building, and in 2017 on the second loan for its subsequent renovation.

(US$ thousands)	2019	2018
Nominal value 1967 borrowings for the HQ building construction	22 783	26 257
Nominal value 2017 borrowings for the HQ building renovation	67 692	43 566
Nominal value at end of period	**90 475**	**69 823**
Carrying amount 1967 borrowings for the HQ building construction (amortized cost)	21 183	24 163
Carrying amount 2017 borrowings for the HQ building renovation	67 692	43 567
Carrying amount at end of period	**88 875**	**67 730**

Construction loan – 1967

109. 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 CHF22.21 million for the 1967 borrowing is reflected in US$ at amortized cost (US$21.18 million).

(US$ thousands)	2019	2018
Nominal value at beginning of period	**26 257**	**30 284**
Repaid in current period	(3 706)	(3 717)
Exchange rate effect	232	(310)
Nominal value at end of period	**22 783**	**26 257**
Fair value adjustment beginning of period	(2 094)	(2 699)
Exchange rate effect	(25)	25
Amortization using effective interest rate	519	580
Fair value adjustment end of period	**(1 600)**	**(2 094)**
Total borrowings	**21 183**	**24 163**

110. The loan is repayable in annual instalments and the final payment will be due in 2025. The annual payments in nominal value (CHF3.70 million per year) are as follows:

(US$ thousands)	2019	2018
Payments due next year	3 797	3 751
Payments due from second to fifth year	15 189	15 004
Payments due after five years	3 797	7 502
Nominal value at end of period	**22 783**	**26 257**

Renovation loan – 2017

111. 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.

112. In September 2016, the Swiss Confederation agreed to provide through the FIPOI a loan to the ILO of up to CHF70.00 million. Following the approval of the Federal Government in late 2016, the loan agreement with the FIPOI was signed in April 2017.

The loan is received by the ILO in instalments over the period September 2017 until the corresponding renovations are complete, planned for December 2020. A total of CHF66.00 million has been received as of 31 December 2019 (CHF43.00 million as of 31 December 2018).

113. The loan will be repaid over 30 years, with the first principal payment of US$2.26 million due at 31 December 2020 based on the amount of the loan disbursed to date.

114. The annual interest rate is fixed at 0.5 per cent. Interest charges will commence once the total loan has been received.

Note 18 – Due to Member States

115. The amount due to Member States at the reporting date is calculated as follows:

(US$ thousands)	**2019**	**2018**
Undistributed surpluses of prior periods	110	108
Undistributed net premia of prior periods	2 607	242
Undistributed 50 per cent of net premia	7 539	6 628
Subtotal	**10 256**	**6 978**
Incentive Fund	8 088	7 078
Total payable to Member States	**18 344**	**14 056**
■ Due to Member States – Current	**2 505**	**11 132**
■ Due to Member States – Non-current	**15 839**	**2 924**

116. 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 2019 amount was included as a separate element of the accumulated fund balance pending the biennial results.

Calculation of net premium and Incentive Fund

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

118. *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 2018–19 biennium is as follows:

Exchange Equalization Account (EEA) calculation (US$ thousands)	2018–19	2016–17
Premium earned on the forward purchase of US dollars	15 402	13 670
Exchange gains (losses) from revaluation from budgetary to UN operational rate of exchange		
Revenue	(11 789)	(27 788)
Expense	6 675	14 287
Forward purchase of US dollars	5 800	11 958
Revaluation of assets, liabilities, reserves and fund balances at UN operational rate of exchange	(978)	2 835
Revaluation of provision for contribution arrears	(31)	(1 625)
Revaluation of regular budget surplus	–	41
Total EEA	**15 079**	**13 378**

119. *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$ thousands)	2019	2018
Interest earned in current year	298	240
Interest earned in prior year	250	210
Total interest earned	**548**	**450**
50 per cent of net premium	7 540	6 628
Total available in Incentive Fund	**8 088**	**7 078**

Note 19 – Other current liabilities

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

(US$ thousands)	2019	2018
Pass-through funds held as administrative agent	4 592	5 779
Provisions for contingencies	97	3 884
Other	1 566	2 172
Total other current liabilities	**6 255**	**11 835**

121. 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.

122. 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$ thousands)	2019	2018
Balance as at 1 January	**3 884**	**894**
Additional provisions raised during the period	25	3 815
Provisions used during the period	(3 782)	(40)
Unused provisions reversed during the period	(30)	(785)
Balance as at 31 December	**97**	**3 884**

123. The significant decrease in provisions for contingencies arises from the payment in 2019 for claims filed in respect of the International Civil Service Commission decision to reduce the post adjustment in Geneva.

Note 20 – Reserves and accumulated balances

124. 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.
  - *Extrabudgetary 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.
  - *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.

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

(US$ thousands)	2019	2018
Reserves		
Working Capital Fund	–	35 461
Income Adjustment Account	25 027	63 603
Terminal Benefit Fund	51 805	47 117
Fidelity Guarantee Fund	1 379	1 361
Extrabudgetary Fund	25	25
SHIF Guarantee Fund	61 802	56 273
ASHI Liability Reserve	8 938	7 366
ITC's Working Capital Fund	2 232	2 283
Total reserves	**151 208**	**213 489**
Accumulated balances		
Employee benefits	(1 561 659)	(1 383 155)
Revaluation surplus of land and buildings	445 930	346 240
Value of outstanding derivatives	(9 357)	3 415
Translation difference	(4 386)	(4 980)
Accumulated surplus	208 655	195 634
Total accumulated balances	**(920 817)**	**(842 846)**
Total net assets	**(769 609)**	**(629 357)**

Note 21 – Expenses

126. 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

127. 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

128. 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).

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

Financial risk management

130. 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

131. 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

132. 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.

133. 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.

134. 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.

135. The ILO also enters into forward purchase agreements to hedge the non-Swiss franc investments (excluding 35 per cent, with a tolerance of +/- 5 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.

136. 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.

137. The table below shows the impact on surplus/deficit and net assets as of 31 December 2019, if the major currencies to which the Organization was exposed, weakened or strengthened by 5 per cent against the US dollar:

(US$ thousands)	CHF[1] denominated	€[2] denominated
5 per cent depreciation of the foreign currency against US$		
Impact on surplus/deficit: Financial assets and liabilities other than derivative instruments	(10 988)	(1 069)
Impact on net assets: Derivative instruments	17 026	–
5 per cent appreciation of the foreign currency against US$:		
Impact on surplus/deficit: Financial assets and liabilities other than derivative instruments	12 145	1 182
Impact on net assets: Derivative instruments	(18 818)	–

1 The UN operational rate of exchange was US$1 = CHF0.975 as at 31 December 2019.

2 The UN operational rate of exchange was US$1 = €0.896 as at 31 December 2019.

138. 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.

139. 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

140. 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.

141. 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$3.18 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

142. 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.

143. 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.

144. 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.

145. 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.

146. 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$ thousands)	%	Carrying amount (US$ thousands)	%
AAA	–	–	2 601	0.4
AA	60 785	19.6	90 478	15.6
A	228 573	73.8	299 874	51.6
BBB	8 386	2.7	–	–
<BBB	11 038	3.6	–	–
Not rated	842[2]	0.3	187 967[3]	32.4
Total	**309 624**	**100.0**	**580 920**	**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.

147. 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 to A+ within a maximum exposure of US$3.34 million.

148. 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

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

150. The ILO manages liquidity risk by continuously monitoring actual and estimated cash flows. The ILO's total current assets of US$1,086.68 million are sufficient to settle its current financial liabilities of US$839.23 million. On an ongoing basis, it is anticipated that the ILO will continue to have sufficient liquidity to meet its financial obligations.

Capital management

151. 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.

152. 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

153. 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.

154. 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$2.74 million in 2019 (US$2.24 million in 2018).

155. The total amount of lease and sublease expense recognized in 2019 was US$11.03 million (US$11.68 million in 2018).

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

(US$ thousands)	2019	2018
Within one year	448	514
Later than one year and not later than five years	1 657	1 710
Later than five years	–	395
Total operating lease commitments	**2 105**	**2 619**

157. The total amount of rent earned under contingent lease agreements in 2019 was US$0.77 million (US$0.83 million in 2018), 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

158. 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.

159. 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

160. 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

161. 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

162. 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.

163. 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)	(76 415)	129	3 517		**(72 769)**
Less: Timing difference	(7 043)	(175)	(1 123)		**(8 341)**
Adjusted net result	**(83 458)**	**(46)**	**2 394**		**(81 110)**
Reconciling items from budgetary basis to IPSAS basis:					
Treatment of exchange differences	10 943		369		**11 312**
Provision for assessed contributions receivable	65 821				**65 821**
Amortization of receivable from Member States with financial arrangement	230				**230**
Recognition of inventory	324				**324**
Recognition of property and equipment	178	(13)	(375)		**(210)**
Recognition of intangible assets	662				**662**
Accrual of employee benefits	(871)	40			**(831)**
Provision for contingencies	3 382				**3 382**
Unrealized gain from forward purchase agreements	1 008				**1 008**
Accrual for ITC training and other services	(275)				**(275)**
Use of prior year surplus (ITC)			(670)		**(670)**
Entity difference (ITC)			(235)		**(235)**
Subsidiary funds				(33 538)	**(33 538)**
Total difference	**81 402**	**27**	**(911)**	**(33 538)**	**46 980**
Net result per IPSAS basis	**(2 056)**	**(19)**	**1 483**	**(33 538)**	**(34 130)**

164. The following table provides a reconciliation between statement V and statement IV for the year ended 31 December 2019:

(US$ thousands)	Operating activities	Investing activities	Financing activities	Total
Net surplus (deficit) on a budgetary basis (statement V)	**(72 769)**	**–**	**–**	**(72 769)**
Timing difference	(8 341)	–	–	(8 341)
Basis difference	80 301	452		80 753
Entity difference	20 581	(94 198)	20 420	(53 197)
Net consolidated cash flows (statement IV)	**19 772**	**(93 746)**	**20 420**	**(53 554)**

Effect of exchange rates on cash and cash equivalents	3 819
Net increase in cash and cash equivalents	**(49 735)**

Note 25 – Related party disclosures

165. 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.

166. 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	2019		2018	
	Individuals [1]	Remuneration (US$ thousands)	Individuals [1]	Remuneration (US$ thousands)
Key management	12.0	4 133	12.8	4 247

[1] Full-time equivalent.

167. There were US$0.03 million of new advances granted in 2019, and US$0.07 million in total advances outstanding to key management personnel as of 31 December 2019.

168. 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.

169. There were related party transactions involving key management personnel in 2019 totalling US$0.34 million (US$0.16 million in 2018). All such transactions are under terms and conditions that would apply in the normal course of operations.

Note 26 – Revenue from non-exchange transactions

170. 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$ thousands)	2019	2018
Assessed contributions from Member States	385 772	386 794
Voluntary contributions to development cooperation projects, RBSA, and gifts and grants	294 531	261 134
ITC training services and other non-exchange revenue	19 687	17 774
Total revenue from non-exchange transactions	**699 990**	**665 702**
Receivables from assessed contributions (note 5)	151 967	85 189
Receivables from voluntary contributions (note 6)	495 175	382 689
Total receivables from non-exchange transactions	**647 142**	**467 878**

Liabilities recognized for conditional voluntary contributions (note 15)	513 867	370 151
Liabilities recognized for ITC training services (note 15)	14 928	12 952
Advance receipts from assessed contributions (note 15)	39 996	40 797
Total liabilities from non-exchange transactions	**568 791**	**423 900**

Note 27 – Contingent assets and liabilities and commitments

Contingent assets

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

(US$ thousands)	2019
Member State contribution assessed for 2020–21 [1]	790 640
Revenue from voluntary ITC training services covering future periods	9 375
Contributions from the Government of Italy to cover renovations of ITC training pavilions	2 945
Contributions to the RBSA covering future periods	8 929
Total contingent assets	**811 889**

[1] CHF790.64 million at the budget rate of exchange of US$1 = CHF1 adopted by the ILO for the 2020–21 biennium.

Contingent liabilities

172. The ILO has contingent liabilities of US$0.24 million for claims or legal actions related to the ILO Administrative Tribunal (US$0.08 million as at 31 December 2018).

Commitments

173. Outstanding contracts for renovation of the headquarters building totalled US$8.54 million as at 31 December 2019 (US$29.36 million as at 31 December 2018).

174. Future minimum lease rental payments for non-cancellable leases are presented in note 23.

Note 28 – Contributions in kind

175. 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 – Subsequent events

176. At its 337th Session (October–November 2019), the Governing Body authorized the Director-General to finalize contractual terms for the sale of plot 4057 located in Geneva, which was unsold as of 31 December 2019. Prior to the approval of the financial statements, the unconditional sale of plot 4057 has been finalized and the land was sold for a base price of CHF150.00 million. This base sale price is subject to increase should the local authorities approve a building density greater than the statutory minimum of 1.8. The proceeds of this sale, and the corresponding disposal of investment property, will be reflected in the 31 December 2020 financial statements.

177. The ILO has also decided to sell the ILO-owned property in Brussels, Belgium, for the ILO Office for the European Union and Benelux countries and relocate to the United Nations (UN) House shared accommodations. As the property was still occupied by the ILO as at 31 December 2019, it is reflected in property and equipment (note 12). Prior to the approval of the financial statements, the sale of this property has been finalized for a purchase price of €0.71 million, which will be reflected in the 31 December 2020 financial statements.

178. In March 2020, the World Health Organization declared a global pandemic due to the new coronavirus (COVID-19). This situation is evolving and the measures put in place by various levels of government have economic impacts at the global and local levels. Management is monitoring the situation at this time, however the overall impact of these events on the ILO and its activities, including the potential effects on revenues, expenses and the valuation of assets and liabilities, is too uncertain to be estimated at this time.

179. With the subsequent decision of the Governing Body to defer the 109th Session of the International Labour Conference (originally scheduled from 25 May to 5 June 2020) to June 2021, and to cancel the associated the Governing Body sessions, these financial statements will not be submitted to the Governing Body for adoption until the 2021 session.

Note 30 – Reclassification of figures

180. In statement II – Consolidated statement of financial performance for the year ended 31 December 2018, an amount of US$3.68 million was reclassified from the line item for other expenses to the line item of salaries, employee benefits and other personnel costs, in order to provide comparability between both financial years.

181. In note 8 – Investments, the 2018 investment income earned on short-term deposits that was subsequently transferred to cash balances was added to the investment movement schedule to align with the current year presentation.

182. In note 11 – Other current assets, an amount of US$1.37 million was reclassified from the 2018 Staff advances line item, to the Other line item to align with the current year presentation.

Note 31 – Segment reporting

183. 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.

184. 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).

Consolidated statement of financial performance by segment for the year ended 31 December 2019 (US$ thousands)

	Funds with approved budgets:				Voluntary contribution activities	Subsidiary funds	Intersegments transfers elimination	Total
	Regular budget	CINTERFOR	ITC	Subtotal				
Revenue								
Assessed contributions	385 772	–	–	385 772	–	–	–	385 772
Voluntary contributions	–	1 902	14 725	16 627	282 547	61 601	(66 244)	294 531
ITC training services	–	–	30 734	30 734	–	–	(12 072)	18 662
Programme support income	–	–	–	–	–	27 147	(27 147)	–
Staff/retiree benefit contributions	–	–	–	–	–	49 094	(26 879)	22 215
Sales and royalties	–	–	714	714	8 412	5 547	(790)	13 883
Investment income	–	29	174	203	4 390	16 142	–	20 735
Other income	71	15	1 100	1 186	–	1 252	–	2 438
Total revenue	**385 843**	**1 946**	**47 447**	**435 236**	**295 349**	**160 783**	**(133 132)**	**758 236**
Expenses								
Salaries, employee benefits and other personnel costs	263 462	1 234	21 280	285 976	104 080	85 767	(19 943)	455 880
Travel	13 166	111	4 154	17 431	10 949	1 214	(119)	29 475
Subcontracts	31 898	221	10 472	42 591	101 525	1 612	(1 643)	144 085
General operating expenses	32 191	109	4 018	36 318	9 703	1 716	(1 144)	46 593
Supplies, materials and small equipment	5 381	28	1 186	6 595	4 058	358	(23)	10 988
Depreciation and amortization	1 505	13	982	2 500	–	7 416	–	9 916
Seminars, workshops and other training	14 658	227	4 001	18 886	32 983	548	(8 586)	43 831
Staff development	4 552	15	–	4 567	–	–	(595)	3 972
Health benefits	–	–	–	–	–	47 471	–	47 471
Contributions and grants in aid	34 313	–	1	34 314	1 878	48 536	(73 301)	11 427
Programme support costs	–	–	–	–	27 773	5	(27 778)	–
Finance expenses	(230)	3	55	(172)	353	1 863	–	2 044
Other expenses	2 257	–	–	2 257	–	605	–	2 862
Total expenses	**403 153**	**1 961**	**46 149**	**451 263**	**293 302**	**197 111**	**(133 132)**	**808 544**
Foreign exchange gains/(losses)	15 254	(4)	185	15 435	(708)	1 451	–	16 178
Net surplus (deficit)	**(2 056)**	**(19)**	**1 483**	**(592)**	**1 339**	**(34 877)**	**–**	**(34 130)**

Consolidated statement of financial performance by segment for the year ended 31 December 2018 (US$ thousands)

	Funds with approved budgets:				Voluntary contribution activities	Subsidiary funds	Intersegments transfers elimination	Total
	Regular budget	CINTERFOR	ITC	Subtotal				
Revenue								
Assessed contributions	386 794	–	–	386 794	–	–	–	386 794
Voluntary contributions	–	1 882	15 595	17 477	248 281	106 051	(110 675)	261 134
ITC training services	–	–	25 597	25 597	–	–	(9 166)	16 431
Programme support income	–	–	–	–	–	23 891	(23 891)	–
Staff/retiree benefit contributions	–	–	–	–	–	48 219	(26 488)	21 731
Sales and royalties	–	–	1 155	1 155	–	5 256	5 922	12 333
Investment income	–	17	144	161	3 215	4 239	–	7 615
Other income	15	28	979	1 022	7 164	1 300	(7 163)	2 323
Total revenue	**386 809**	**1 927**	**43 470**	**432 206**	**258 660**	**188 956**	**(171 461)**	**708 361**
Expenses								
Salaries, employee benefits and other personnel costs	254 617	1 396	21 412	277 425	93 542	86 314	(17 743)	439 538
Travel	11 914	52	3 683	15 649	10 021	1 847	(224)	27 293
Subcontracts	20 919	63	8 254	29 236	84 305	1 759	(1 999)	113 301
General operating expenses	30 410	116	4 507	35 033	9 602	1 981	(1 391)	45 225
Supplies, materials and small equipment	3 125	20	777	3 922	3 125	60	(17)	7 090
Depreciation and amortization	2 095	16	1 124	3 235	–	6 414	–	9 649
Seminars, workshops and other training	9 478	88	3 769	13 335	25 739	587	(5 360)	34 301
Staff development	4 743	18	–	4 761	2	–	(562)	4 201
Health benefits	–	–	–	–	–	48 132	–	48 132
Contributions and grants in aid	36 152	–	–	36 152	2 260	90 674	(119 777)	9 309
Programme support costs	–	–	–	–	24 331	–	(24 331)	–
Finance expenses	(253)	3	57	(193)	432	1 697	–	1 936
Other expenses	1 213	–	–	1 213	403	504	–	2 120
Total expenses	**374 413**	**1 772**	**43 583**	**419 768**	**253 762**	**239 969**	**(171 404)**	**742 095**
Foreign exchange gains/(losses)	6 325	(2)	181	6 504	(729)	(2 273)	–	3 502
Net surplus (deficit)	**18 721**	**153**	**68**	**18 942**	**4 169**	**(53 286)**	**(57)**	**(30 232)**

Note 32 – 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 2019 (in CHF)

Details	Balance due as at 1.1.2018 [1]	Assessed contributions 2018–19	Total amounts due	Amount received or credited [2]			Balance due as at 31.12.2019
				2018	2019	Total income	
A. Assessed contributions for the financial period 2018–19:							
2018 – Assessed with the budget		380 298 200	380 298 200	305 592 312	47 391 934	352 984 246	27 313 954
2019 – Assessed with the budget		380 298 200	380 298 200	–	262 772 074	262 772 074	117 526 126
Total assessed contributions for the financial period 2018–19		**760 596 400**	**760 596 400**	**305 592 312**	**310 164 008**	**615 756 320**	**144 840 080**
B. Assessed contributions for previous financial periods due from Member States	158 763 278		158 763 278	131 215 598	7 736 036	138 951 634	19 811 644
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	165 378 967	–	165 378 967	131 215 598	7 736 036	138 951 634	26 427 333
Total 2018–19	**165 378 967**	**760 596 400**	**925 975 367**	**436 807 910**	**317 900 044**	**754 707 954**	**171 267 413**
Total 2016–17	111 459 218	757 529 634	868 988 852	398 541 330	305 068 555	703 609 885	165 378 967

Balance in US dollars at the United Nations rate of exchange for 31 December 2019 (0.975 Swiss francs to the dollar)	175 658 885
Less: prepayments of financial arrangements	(1 285 057)
Assessed contributions receivable in US dollars	174 373 828

[1] Excludes assessed contributions for 2018–19.

[2] Includes credits to Member States in respect of:

	2 018	2 019
The incentive scheme for 2016 and 2017 respectively	121 641	6 749 081
50 per cent net premium for prior years	64 834	4 238 672
Surplus for prior years	208	–
Total credits	**186 683**	**10 987 753**

Note 33 – 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 biennium ending 31 December 2019 (in Swiss francs)

State	2018–19 Assessed contributions								Amounts due for previous financial periods				Calender years of assessment	Total due as at 31.12.2019
	2018				2019			Balance due as at 31.12.2019	Balance due as at 01.01.2018	Amounts received or credited		Balance due as at 31.12.2019		
	Assessed contributions		Amounts received or credited		Assessed contributions		Amounts received or credited							
	%	Amount	in 2018	in 2019	%	Amount	in 2019			in 2018	in 2019			
Afghanistan	0.006	22 818	-	2 960	0.006	22 818	-	42 676	42 648	-	42 648	-	2018-19	42 676
Albania	0.008	30 424	30 424	-	0.008	30 424	80	30 344	27 625	27 625	-	-	2019	30 344
Algeria	0.161	612 280	612 280	-	0.161	612 280	612 280	-	-	-	-	-		-
Angola	0.010	38 030	38 030	-	0.010	38 030	38 030	-	-	-	-	-		-
Antigua and Barbuda	0.002	7 606	7 606	-	0.002	7 606	7 606	-	141 859	141 859	-	-		-
Argentina	0.893	3 396 063	881	1 237 615	0.893	3 396 063	-	5 553 630	2 614 329	2 614 329	-	-	2018-19	5 553 630
Armenia	0.006	22 818	22 818	-	0.006	22 818	22 818	-	951 666	120 000	831 666	-		-
Australia	2.338	8 891 372	8 891 372	-	2.338	8 891 372	8 891 372	-	-	-	-	-		-
Austria	0.720	2 738 147	2 738 147	-	0.720	2 738 147	2 738 147	-	-	-	-	-		-
Azerbaijan [1]	0.060	228 179	228 179	-	0.060	228 179	228 179	-	2 158 904	247 743	247 743	1 663 418	1995-2005	1 663 418
Bahamas	0.014	53 242	53 242	-	0.014	53 242	53 242	-	-	-	-	-		-
Bahrain	0.044	167 331	167 331	-	0.044	167 331	167 331	-	-	-	-	-		-
Bangladesh	0.010	38 030	38 030	-	0.010	38 030	38 000	30	-	-	-	-	2019	30
Barbados	0.007	26 621	26 621	-	0.007	26 621	26 621	-	-	-	-	-		-
Belarus	0.056	212 967	212 967	-	0.056	212 967	212 967	-	-	-	-	-		-
Belgium	0.885	3 365 639	3 365 639	-	0.885	3 365 639	3 365 639	-	-	-	-	-		-
Belize	0.001	3 803	3 803	-	0.001	3 803	-	3 803	7 572	7 572	-	-	2019	3 803
Benin	0.003	11 409	10	-	0.003	11 409	-	22 808	11 447	-	85	11 362	2017-19	34 170
Bolivia (Plurinational State of)	0.012	45 636	18	-	0.012	45 636	-	91 254	45 448	45 434	-	14	2017-19	91 268
Bosnia and Herzegovina	0.013	49 439	49 439	-	0.013	49 439	1 979	47 460	-	-	-	-	2019	47 460
Botswana	0.014	53 242	53 242	-	0.014	53 242	53 242	-	-	-	-	-		-
Brazil	3.825	14 546 406	5 984	8 922 328	3.825	14 546 406	-	20 164 500	25 605 289	25 605 289	-	-	2018-19	20 164 500

State	2018–19 Assessed contributions								Amounts due for previous financial periods				Calender years of assessment	Total due as at 31.12.2019
	2018				2019			Balance due as at 31.12.2019	Balance due as at 01.01.2018	Amounts received or credited		Balance due as at 31.12.2019		
	Assessed contributions		Amounts received or credited		Assessed contributions		Amounts received or credited							
	%	Amount	in 2018	in 2019	%	Amount	in 2019			in 2018	in 2019			
Brunei Darussalam	0.029	110 286	110 286	-	0.029	110 286	110 286	-	-	-	-	-		-
Bulgaria	0.045	171 134	171 134	-	0.045	171 134	171 134	-	-	-	-	-		-
Burkina Faso	0.004	15 212	15 212	-	0.004	15 212	15 212	-	-	-	-	-		-
Burundi	0.001	3 803	3 803	-	0.001	3 803	3 803	-	-	-	-	-		-
Cabo Verde	0.001	3 803	3 803	-	0.001	3 803	3 803	-	9 431	9 431	-	-		-
Cambodia	0.004	15 212	15 212	-	0.004	15 212	15 212	-	-	-	-	-		-
Cameroon	0.010	38 030	-	-	0.010	38 030	-	76 060	72 087	-	68 305	3 782	2017-19	79 842
Canada	2.922	11 112 313	11 112 313	-	2.922	11 112 313	11 112 313	-	-	-	-	-		-
Central African Republic [1]	0.001	3 803	3 635	168	0.001	3 803	67	3 736	49 475	8 515	40	40 920	1998-2000 + 2004-07 + 2019	44 656
Chad [2]	0.005	19 015	-	-	0.005	19 015	-	38 030	26 429	-	-	26 429	2016-19	64 459
Chile	0.399	1 517 390	1 517 390	-	0.399	1 517 390	411 830	1 105 560	-	-	-	-	2019	1 105 560
China	7.924	30 134 829	30 134 829	-	7.924	30 134 829	30 134 829	-	-	-	-	-		-
Colombia	0.322	1 224 560	-	-	0.322	1 224 560	-	2 449 120	2 871 622	1 927 335	539 042	405 245	2017-19	2 854 365
Comoros [2]	0.001	3 803	-	-	0.001	3 803	-	7 606	467 634	-	3 803	463 831	1986-2019	471 437
Congo	0.006	22 818	-	-	0.006	22 818	-	45 636	4 098	-	-	4 098	2017-19	49 734
Cook Islands	0.001	3 803	3 792	11	0.001	3 803	3 803	-	-	-	-	-		-
Costa Rica	0.047	178 740	178 740	-	0.047	178 740	178 740	-	12	12	-	-		-
Côte d'Ivoire	0.009	34 227	34 227	-	0.009	34 227	34 227	-	-	-	-	-		-
Croatia	0.099	376 495	376 495	-	0.099	376 495	376 495	-	-	-	-	-		-
Cuba	0.065	247 194	63	95 230	0.065	247 194	1 639	397 456	53 009	51 753	1 256	-	2018-19	397 456
Cyprus	0.043	163 528	163 528	-	0.043	163 528	163 528	-	-	-	-	-		-
Czechia	0.344	1 308 226	1 308 226	-	0.344	1 308 226	1 308 226	-	-	-	-	-		-
Democratic Republic of the Congo	0.008	30 424	6	-	0.008	30 424	-	60 842	22 596	-	-	22 596	2017-19	83 438
Denmark	0.584	2 220 941	2 220 941	-	0.584	2 220 941	2 220 941	-	-	-	-	-		-
Djibouti	0.001	3 803	-	-	0.001	3 803	-	7 606	109 604	-	108 626	978	2017-19	8 584

State	2018–19 Assessed contributions								Amounts due for previous financial periods					
	2018				2019									
	Assessed contributions		Amounts received or credited		Assessed contributions		Amounts received or credited	Balance due as at	Balance due as at	Amounts received or credited		Balance due as at	Calender years of	Total due as at
	%	Amount	in 2018	in 2019	%	Amount	in 2019	31.12.2019	01.01.2018	in 2018	in 2019	31.12.2019	assessment	31.12.2019
Dominica [2]	0.001	3 803	-	-	0.001	3 803	-	7 606	45 069	7 573	3 803	33 693	2009-19	41 299
Dominican Republic	0.046	174 937	174 937	-	0.046	174 937	170 684	4 253	9 702	9 702	-	-	2019	4 253
Ecuador	0.067	254 800	-	60 940	0.067	254 800	-	448 660	409 783	-	409 783	-	2018-19	448 660
Egypt	0.152	578 053	-	578 053	0.152	578 053	578 053	-	-	-	-	-		-
El Salvador	0.014	53 242	139	51 395	0.014	53 242	-	54 950	169 492	169 492	-	-	2018-19	54 950
Equatorial Guinea	0.010	38 030	-	38 030	0.010	38 030	36 084	1 946	209 537	-	209 537	-	2019	1 946
Eritrea	0.001	3 803	3 803	-	0.001	3 803	79	3 724	-	-	-	-	2019	3 724
Estonia	0.038	144 513	144 513	-	0.038	144 513	144 513	-	-	-	-	-		-
Eswatini	0.002	7 606	7 606	-	0.002	7 606	7 606	-	-	-	-	-		-
Ethiopia	0.010	38 030	20	37 861	0.010	38 030	-	38 179	37 861	37 861	-	-	2018-19	38 179
Fiji	0.003	11 409	11 409	-	0.003	11 409	11 409	-	-	-	-	-		-
Finland	0.456	1 734 160	1 734 160	-	0.456	1 734 160	1 734 160	-	-	-	-	-		-
France	4.861	18 486 295	18 486 295	-	4.861	18 486 295	18 486 295	-	-	-	-	-		-
Gabon [2]	0.017	64 651	21	-	0.017	64 651	-	129 281	244 665	-	-	244 665	2014-19	373 946
Gambia [2]	0.001	3 803	-	-	0.001	3 803	-	7 606	67 767	-	-	67 767	1999-2019	75 373
Georgia	0.008	30 424	30 424	-	0.008	30 424	30 424	-	875 493	430 066	445 427	-		-
Germany	6.392	24 308 661	24 308 661	-	6.392	24 308 661	24 308 661	-	-	-	-	-		-
Ghana	0.016	60 848	60 848	-	0.016	60 848	59 935	913	64 093	64 093	-	-	2019	913
Greece	0.471	1 791 204	1 791 204	-	0.471	1 791 204	1 790 700	504	-	-	-	-	2019	504
Grenada [2]	0.001	3 803	-	-	0.001	3 803	-	7 606	18 728	3 783	-	14 945	2014-19	22 551
Guatemala	0.028	106 483	106 483	-	0.028	106 483	106 483	-	-	-	-	-		-
Guinea	0.002	7 606	86	7 381	0.002	7 606	225	7 520	-	-	-	-	2018-19	7 520
Guinea-Bissau [2]	0.001	3 803	-	-	0.001	3 803	-	7 606	279 389	-	-	279 389	1992-2001 + 2003-2019	286 995
Guyana	0.002	7 606	7 606	-	0.002	7 606	7 606	-	-	-	-	-		-
Haiti	0.003	11 409	7	11 402	0.003	11 409	11 409	-	5	-	5	-		-
Honduras	0.008	30 424	30 424	-	0.008	30 424	30 424	-	-	-	-	-		-

State	2018–19 Assessed contributions								Amounts due for previous financial periods				Calender years of assessment	Total due as at 31.12.2019
	2018				2019			Balance due as at 31.12.2019	Balance due as at 01.01.2018	Amounts received or credited		Balance due as at 31.12.2019		
	Assessed contributions		Amounts received or credited		Assessed contributions		Amounts received or credited							
	%	Amount	in 2018	in 2019	%	Amount	in 2019			in 2018	in 2019			
Hungary	0.161	612 280	612 280	-	0.161	612 280	612 280	-	-	-	-	-		-
Iceland	0.023	87 469	87 469	-	0.023	87 469	87 469	-	-	-	-	-		-
India	0.737	2 802 798	2 802 798	-	0.737	2 802 798	2 802 798	-	-	-	-	-		-
Indonesia	0.504	1 916 703	1 916 703	-	0.504	1 916 703	1 916 703	-	-	-	-	-		-
Iran (Islamic Republic of)	0.471	1 791 204	1 069	102 728	0.471	1 791 204	-	3 478 611	2 004 404	1 328 608	675 796	-	2018-19	3 478 611
Iraq [1]	0.129	490 585	5	490 580	0.129	490 585	487 834	2 751	3 840 914	793 215	609 540	2 438 159	1997-2007 + 2019	2 440 910
Ireland	0.335	1 273 999	1 273 999	-	0.335	1 273 999	1 273 999	-	-	-	-	-		-
Israel	0.430	1 635 282	1 616 160	19 122	0.430	1 635 282	848 929	786 353	284 122	284 122	-	-	2019	786 353
Italy	3.750	14 261 182	14 261 182	-	3.750	14 261 182	14 261 182	-	847 427	847 427	-	-		-
Jamaica	0.009	34 227	34 227	-	0.009	34 227	34 227	-	-	-	-	-		-
Japan	9.684	36 828 078	36 828 078	-	9.684	36 828 078	36 828 078	-	-	-	-	-		-
Jordan	0.020	76 060	76 060	-	0.020	76 060	76 060	-	75 692	75 692	-	-		-
Kazakhstan [1]	0.191	726 369	726 369	-	0.191	726 369	726 369	-	772 012	257 335	257 335	257 342	1998-99	257 342
Kenya	0.018	68 454	21 512	46 942	0.018	68 454	-	68 454	87 084	87 084	-	-	2019	68 454
Kiribati	0.001	3 803	1	3 802	0.001	3 803	3 719	84	7 802	3 940	3 862	-	2019	84
Kuwait	0.285	1 083 850	666	1 083 184	0.285	1 083 850	1 083 796	54	1 079 467	-	1 079 467	-	2019	54
Kyrgyzstan [1]	0.002	7 606	7 606	-	0.002	7 606	7 606	-	1 166 323	58 316	58 316	1 049 691	1993-2017	1 049 691
Lao People's Democratic Republic	0.003	11 409	11 409	-	0.003	11 409	7 756	3 653	3 613	3 613	-	-	2019	3 653
Latvia	0.050	190 149	190 149	-	0.050	190 149	190 149	-	-	-	-	-		-
Lebanon	0.046	174 937	49	-	0.046	174 937	-	349 825	356 906	156 045	192 842	8 019	2017-19	357 844
Lesotho	0.001	3 803	3 803	-	0.001	3 803	3 803	-	-	-	-	-		-
Liberia	0.001	3 803	3 803	-	0.001	3 803	3 803	-	-	-	-	-		-
Libya	0.125	475 373	-	-	0.125	475 373	-	950 746	1 897 026	473 450	950 127	473 449	2017-19	1 424 195
Lithuania	0.072	273 815	273 815	-	0.072	273 815	273 815	-	-	-	-	-		-
Luxembourg	0.064	243 391	243 391	-	0.064	243 391	243 391	-	241 977	241 977	-	-		-
Madagascar	0.003	11 409	11 409	-	0.003	11 409	11 409	-	818	818	-	-		-

State	2018–19 Assessed contributions								Amounts due for previous financial periods				Calender years of assessment	Total due as at 31.12.2019
	2018				2019			Balance due as at 31.12.2019	Balance due as at 01.01.2018	Amounts received or credited		Balance due as at 31.12.2019		
	Assessed contributions		Amounts received or credited		Assessed contributions		Amounts received or credited							
	%	Amount	in 2018	in 2019	%	Amount	in 2019			in 2018	in 2019			
Malawi	0.002	7 606	4	-	0.002	7 606	-	15 208	150	-	-	150	2017-19	15 358
Malaysia	0.322	1 224 560	1 224 560	-	0.322	1 224 560	1 224 560	-	-	-	-	-		-
Maldives	0.002	7 606	7 606	-	0.002	7 606	7 606	-	11 362	11 362	-	-		-
Mali	0.003	11 409	11 409	-	0.003	11 409	11 409	-	-	-	-	-		-
Malta	0.016	60 848	60 826	22	0.016	60 848	60 843	5	16	16	-	-	2019	5
Marshall Islands	0.001	3 803	3 803	-	0.001	3 803	3 803	-	-	-	-	-		-
Mauritania	0.002	7 606	1 097	6 509	0.002	7 606	7 455	151	-	-	-	-	2019	151
Mauritius	0.012	45 636	45 592	44	0.012	45 636	45 592	44	-	-	-	-	2019	44
Mexico	1.436	5 461 082	1 461 082	4 000 000	1.436	5 461 082	-	5 461 082	11 047 470	11 047 470	-	-	2019	5 461 082
Mongolia	0.005	19 015	19 015	-	0.005	19 015	19 015	-	-	-	-	-		-
Montenegro	0.004	15 212	15 212	-	0.004	15 212	15 212	-	-	-	-	-		-
Morocco	0.054	205 361	205 361	-	0.054	205 361	205 361	-	-	-	-	-		-
Mozambique	0.004	15 212	8	15 204	0.004	15 212	716	14 496	-	-	-	-	2019	14 496
Myanmar	0.010	38 030	38 030	-	0.010	38 030	37 158	872	-	-	-	-	2019	872
Namibia	0.010	38 030	38 030	-	0.010	38 030	38 030	-	-	-	-	-		-
Nepal	0.006	22 818	22 125	-	0.006	22 818	405	23 106	94	94	-	-	2018-19	23 106
Netherlands	1.483	5 639 822	5 639 822	-	1.483	5 639 822	5 639 822	-	-	-	-	-		-
New Zealand	0.268	1 019 199	1 019 199	-	0.268	1 019 199	1 019 199	-	-	-	-	-		-
Nicaragua	0.004	15 212	15 212	-	0.004	15 212	15 212	-	676	676	-	-		-
Niger	0.002	7 606	-	7 606	0.002	7 606	7 606	-	15 136	-	15 136	-		-
Nigeria	0.209	794 823	-	419 379	0.209	794 823	-	1 170 267	48 560	-	48 560	-	2018-19	1 170 267
North Macedonia	0.007	26 621	26 621	-	0.007	26 621	26 621	-	-	-	-	-		-
Norway	0.849	3 228 732	3 228 732	-	0.849	3 228 732	3 228 732	-	-	-	-	-		-
Oman	0.113	429 737	429 737	-	0.113	429 737	429 737	-	25	25	-	-		-
Pakistan	0.093	353 677	352 253	1 424	0.093	353 677	318 669	35 008	11 260	11 260	-	-	2019	35 008
Palau	0.001	3 803	2	-	0.001	3 803	-	7 604	171	-	-	171	2017-19	7 775
Panama	0.034	129 301	116 415	12 886	0.034	129 301	112 443	16 858	7 791	7 791	-	-	2019	16 858

State	2018–19 Assessed contributions: 2018 Assessed contributions %	2018 Assessed contributions Amount	2018 Amounts received or credited in 2018	2018 Amounts received or credited in 2019	2019 Assessed contributions %	2019 Assessed contributions Amount	2019 Amounts received or credited in 2019	Balance due as at 31.12.2019	Amounts due for previous financial periods: Balance due as at 01.01.2018	Amounts received or credited in 2018	Amounts received or credited in 2019	Balance due as at 31.12.2019	Calender years of assessment	Total due as at 31.12.2019
Papua New Guinea	0.004	15 212	8	15 204	0.004	15 212	-	15 212	6 913	-	6 913	-	2019	15 212
Paraguay [1]	0.014	53 242	53 242	-	0.014	53 242	50 711	2 531	384 240	42 723	42 723	298 794	1999-2003 + 2011-13 + 2019	301 325
Peru	0.136	517 205	353 729	163 476	0.136	517 205	164 895	352 310	-	-	-	-	2019	352 310
Philippines	0.165	627 492	627 492	-	0.165	627 492	627 492	-	-	-	-	-		-
Poland	0.841	3 198 308	3 198 308	-	0.841	3 198 308	3 198 308	-	-	-	-	-		-
Portugal	0.392	1 490 769	1 490 769	-	0.392	1 490 769	1 490 769	-	-	-	-	-		-
Qatar	0.269	1 023 002	1 023 002	-	0.269	1 023 002	1 023 002	-	-	-	-	-		-
Republic of Korea	2.040	7 758 083	7 758 083	-	2.040	7 758 083	7 758 083	-	-	-	-	-		-
Republic of Moldova [1]	0.004	15 212	15 212	-	0.004	15 212	15 212	-	1 091 736	136 467	136 467	818 802	1996-2004	818 802
Romania	0.184	699 749	699 740	9	0.184	699 749	699 740	9	5	5	-	-	2019	9
Russian Federation	3.089	11 747 411	11 747 411	-	3.089	11 747 411	11 747 411	-	-	-	-	-		-
Rwanda	0.002	7 606	5	6 990	0.002	7 606	-	8 217	616	-	616	-	2018-19	8 217
Saint Kitts and Nevis	0.001	3 803	3 482	321	0.001	3 803	3 803	-	-	-	-	-		-
Saint Lucia	0.001	3 803	2	-	0.001	3 803	185	7 419	-	-	-	-	2018-19	7 419
Saint Vincent and the Grenadines	0.001	3 803	48	3 755	0.001	3 803	2 369	1 434	4 267	-	4 267	-	2019	1 434
Samoa	0.001	3 803	3 803	-	0.001	3 803	3 803	-	-	-	-	-		-
San Marino	0.003	11 409	11 409	-	0.003	11 409	11 409	-	-	-	-	-		-
Sao Tome and Principe [2]	0.001	3 803	-	-	0.001	3 803	-	7 606	197 091	-	-	197 091	1995-2019	204 697
Saudi Arabia	1.147	4 362 020	4 362 020	-	1.147	4 362 020	4 362 020	-	-	-	-	-		-
Senegal	0.005	19 015	-	16 202	0.005	19 015	-	21 828	16 400	-	16 400	-	2018-19	21 828
Serbia	0.032	121 695	121 695	-	0.032	121 695	121 695	-	-	-	-	-		-
Seychelles	0.001	3 803	3 803	-	0.001	3 803	3 803	-	-	-	-	-		-
Sierra Leone [1]	0.001	3 803	-	-	0.001	3 803	-	7 606	432 653	-	174 267	258 386	1992-2019	265 992
Singapore	0.447	1 699 933	1 699 933	-	0.447	1 699 933	1 699 933	-	-	-	-	-		-
Slovakia	0.160	608 477	608 477	-	0.160	608 477	608 477	-	-	-	-	-		-

State	2018–19 Assessed contributions								Amounts due for previous financial periods					
	2018				2019									
	Assessed contributions		Amounts received or credited		Assessed contributions		Amounts received or credited	Balance due as at	Balance due as at	Amounts received or credited		Balance due as at	Calender years of	Total due as at
	%	Amount	in 2018	in 2019	%	Amount	in 2019	31.12.2019	01.01.2018	in 2018	in 2019	31.12.2019	assessment	31.12.2019
Slovenia	0.084	319 450	319 450	-	0.084	319 450	319 450	-	-	-	-	-		-
Solomon Islands [2]	0.001	3 803	-	-	0.001	3 803	-	7 606	41 477	-	3 803	37 674	2005-07 + 2010-19	45 280
Somalia [1]	0.001	3 803	-	-	0.001	3 803	-	7 606	411 940	-	-	411 940	1998-2019	419 546
South Africa	0.364	1 384 285	1 384 285	-	0.364	1 384 285	1 384 285	-	-	-	-	-		-
South Sudan [2]	0.003	11 409	-	-	0.003	11 409	-	22 818	75 164	-	-	75 164	2012-19	97 982
Spain	2.444	9 294 488	9 294 488	-	2.444	9 294 488	9 294 488	-	-	-	-	-		-
Sri Lanka	0.031	117 892	117 892	-	0.031	117 892	117 892	-	-	-	-	-		-
Sudan	0.010	38 030	15	-	0.010	38 030	-	76 045	42 872	-	38 015	4 857	2017-19	80 902
Suriname	0.006	22 818	4	-	0.006	22 818	-	45 632	38 370	22 496	-	15 874	2017-19	61 506
Sweden	0.957	3 639 454	3 639 454	-	0.957	3 639 454	3 639 454	-	-	-	-	-		-
Switzerland	1.141	4 339 202	4 339 202	-	1.141	4 339 202	4 339 202	-	-	-	-	-		-
Syrian Arab Republic	0.024	91 271	45 641	-	0.024	91 271	2 259	134 642	-	-	-	-	2018-19	134 642
Tajikistan [2]	0.004	15 212	-	-	0.004	15 212	-	30 424	496 915	38 120	37 750	421 045	1995-2019	451 469
Thailand	0.291	1 106 668	1 106 668	-	0.291	1 106 668	1 106 668	-	-	-	-	-		-
Timor-Leste	0.003	11 409	-	-	0.003	11 409	-	22 818	565	-	-	565	2017-19	23 383
Togo	0.001	3 803	3 803	-	0.001	3 803	3 803	-	-	-	-	-		-
Tonga	0.001	3 803	-	3 803	0.001	3 803	3 777	26	28	-	28	-	2019	26
Trinidad and Tobago	0.034	129 301	129 301	-	0.034	129 301	129 301	-	-	-	-	-		-
Tunisia	0.028	106 483	106 483	-	0.028	106 483	106 483	-	-	-	-	-		-
Turkey	1.019	3 875 239	3 875 239	-	1.019	3 875 239	3 875 239	-	-	-	-	-		-
Turkmenistan	0.026	98 877	98 877	-	0.026	98 877	4 565	94 312	-	-	-	-	2019	94 312
Tuvalu	0.001	3 803	5	-	0.001	3 803	64	7 537	114	-	-	114	2017-19	7 651
Uganda	0.009	34 227	34 227	-	0.009	34 227	34 159	68	-	-	-	-	2019	68
Ukraine [1]	0.103	391 707	391 707	-	0.103	391 707	391 707	-	1 265 887	316 472	316 472	632 943	1999 + 2009	632 943
United Arab Emirates	0.604	2 297 001	2 297 001	-	0.604	2 297 001	2 297 001	-	-	-	-	-		-
United Kingdom	4.465	16 980 315	16 980 315	-	4.465	16 980 315	16 980 315	-	-	-	-	-		-

State	2018–19 Assessed contributions								Amounts due for previous financial periods				Calender years of assessment	Total due as at 31.12.2019
	2018				2019			Balance due as at 31.12.2019	Balance due as at 01.01.2018	Amounts received or credited		Balance due as at 31.12.2019		
	Assessed contributions		Amounts received or credited		Assessed contributions		Amounts received or credited							
	%	Amount	in 2018	in 2019	%	Amount	in 2019			in 2018	in 2019			
United Republic of Tanzania	0.010	38 030	38 030	-	0.010	38 030	38 030	-	38 029	38 029	-	-		-
United States	22.000	83 665 604	41 496 361	29 625 129	22.000	83 665 604	-	96 209 718	83 289 483	83 289 483	-	-	2018-19	96 209 718
Uruguay	0.079	300 436	-	300 436	0.079	300 436	300 436	-	-	-	-	-		-
Uzbekistan [1]	0.023	87 469	87 469	-	0.023	87 469	87 469	-	1 237 000	112 000	149 800	975 200	1998-2014	975 200
Vanuatu	0.001	3 803	-	3 803	0.001	3 803	3 582	221	605	-	605	-	2019	221
Venezuela (Bolivarian Republic of) [2]	0.571	2 171 503	-	-	0.571	2 171 503	-	4 343 006	8 053 694	-	-	8 053 694	2014-19	12 396 700
Viet Nam	0.058	220 573	220 573	-	0.058	220 573	220 573	-	-	-	-	-		-
Yemen [2]	0.010	38 030	20	-	0.010	38 030	-	76 040	75 732	-	-	75 732	2016-19	151 772
Zambia	0.007	26 621	12	-	0.007	26 621	-	53 230	28 369	-	5 160	23 209	2017-19	76 439
Zimbabwe	0.004	15 212	8	-	0.004	15 212	-	30 416	447	-	-	447	2017-19	30 863
Total	**100.000**	**380 298 200**	**305 592 312**	**47 391 934**	**100.000**	**380 298 200**	**262 772 074**	**144 840 080**	**158 763 278**	**131 215 598**	**7 736 036**	**19 811 644**		**164 651 724**

Amounts due by States for prior periods of membership in the ILO:														
Paraguay [3]	-	-	-	-	-	-	-	-	245 066	-	-	245 066	1937	245 066
Former Socialist Fed. Rep. of Yugoslavia [4]	-	-	-	-	-	-	-	-	6 370 623	-	-	6 370 623	1989-2011	6 370 623
Total amounts due by States for prior periods of membership in the ILO	-	-	-	-	-	-	-	-	6 615 689	-	-	6 615 689		6 615 689
Total	**100.000**	**380 298 200**	**305 592 312**	**47 391 934**	**100**	**380 298 200**	**262 772 074**	**144 840 080**	**165 378 967**	**131 215 598**	**7 736 036**	**26 427 333**		**171 267 413**

[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	
Azerbaijan	95th	(2006)

Member State	Session of Conference at which arrangement was approved	
Central African Republic	97th	(2008)
Iraq	97th	(2008)
Kazakhstan	88th	(2000)
Kyrgyzstan	106th	(2017)
Paraguay	102nd	(2013)
Republic of Moldova	93rd	(2005)
Sierra Leone	108th	(2019)
Somalia	108th	(2019)
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 (2017–18). 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.

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 2019

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

To the Governing Body of the International Labour Office:

We have the honour to transmit the Report of the External Auditor on the Financial Operations of the International Labour Organization for the financial year 2019.

Our report as the External Auditor of the Organization contains the results of our audit of the 2019 financial statements, and also our observations and recommendations on the review of the human resource management, and operations of regional and country offices of the Organization. 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 of the Organization should be aware of. We will be pleased to elaborate on any of these points during the Governing Body meeting in June 2021.

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 Organization's Governing Body.

Yours sincerely,

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

Quezon City, Philippines
1 June 2020

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 2019

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 2019

Contents **Page**

List of Acronyms

BOC	Beginning of Cycles
BPR	Business Process Review
CA	Collective Agreement
CO	Country Office
COA	Commission on Audit
COSH	Committee on Occupational Safety and Health
CPO	Country Programme Outcome
CPR	Country Programme Review
CY	Calendar Year
DC	Development Cooperation
DG	Director-General
DSA	Daily Subsistence Allowance
DWCP	Decent Work Country Programme
DWT	Decent Work Team
EP	Employee Profile
ERM	Enterprise Risk Management
GED	Gender Equality and Diversity Branch
GS	General Service
HLCM	High-level Committee on Management
HM	Hiring Manager
HQ	Headquarters
HR	Human Resource
HRD	Human Resources Development
IAO	Office of the Internal Audit and Oversight
ICF	Internal Control Framework
ICSC	International Chemical Safety Cards
IGDS	Internal Governance Document System
ILO	International Labour Organization
ILOAT	ILO Administrative Tribunal
INTOSAI	International Organization of Supreme Audit Institutions
IOAC	Independent Oversight Advisory Committee
IOM	International Organization for Migration
IPSAS	International Public Sector Accounting Standards
IRIS	Integrated Resource Information System
ISA	International Standards on Auditing
ITC	International Training Centre of the ILO
ITU	International Telecommunication Union
JAAB	Joint Advisory Appeals Board
JD	Job Description
JIU	Joint Inspection Unit
JNC	Joint Negotiating Committee
LAC	Latin America and the Caribbean

LGBT	Lesbian, Gay, Bisexual, Transgender
MAS	Mandatory Age of Separation
MLDP	Management and Leadership Development Programme
MPF	Model Policy Framework
NPO	National Professional Officer
OBW	Outcome-based Workplan
OCT	Outcome coordinating team
OD	Organizational Design
OFFDOC	Official Documentation
OGA	Oracle Grants Accounting
OHI	Organizational Health Index
OPS	Operations Branch
PCF	Petty cash fund
PI	Performance Indicator
PIR	Programme Implementation Report
PMF	Performance Management Framework
P&B	Programme and Budget
RAMC	Recruitment, Assignment and Mobility Committee
RAPS	Recruitment, Assignment and Placement System
RB	Regular Budget
RBM	Results-Based Management
RELMEETINGS	Official Meetings, Documentation and Relations
RES	Resourcing Unit
RO	Regional Office
SDG	Sustainable Development Goals
SHIF	Staff Health Insurance Fund
SIC	Statement of Internal Control
SM/IP	Strategic Management Implementation Planning
SM/M	Strategic Management Module
SMART	Specific, measurable, achievable, relevant and time-bound
SO	Strategic Objectives
SOP	Standard Operating Procedures
SUC	Staff Union Committee
TOR	Terms of Reference
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UN-SWAP	UN-System-wide Action Plan
UW	Unit Workplan
VA	Vacancy Announcement
VAT	Value-Added Tax
VN	Vacancy Notice
WCMS	Web Content Management System

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 fourth audit report to the Governing Body by the Chairperson of the Commission on Audit of the Republic of the Philippines, under its mandate as the External Auditor for the 75th and 76th financial periods that commenced on 1 April 2016 for a period of four years (2016-2019), granted by the Governing Body during its 323rd Session in March 2015. The Governing Body in its 334th Session in October to November 2018 extended the mandate of the Chairperson of the Commission on Audit of the Republic of the Philippines for another two financial periods from 2020 to 2023.

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 the 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 2019, 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 2019.

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 the: (a) Regional Office for Latin America and the Caribbean (RO-LAC), (b) ILO DWT/Country Office for the Andean Countries (DWT/CO-Lima), (c) ILO DWT/Country Office for Cairo (DWT/CO-Cairo), and (d) ILO Decent Work Team and Country Office for Central America, Haiti, Panama and Dominican Republic (DWT/CO-Costa Rica). Likewise, we conducted an audit on the financial statements and operations of the International Training Centre (ITC) in Turin, which is consolidated in the ILO financial statements.

Further, we reviewed the human resource management in line with our mandate 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 Organization.

Key audit findings

The audit resulted in the following key audit observations which need to be addressed by ILO Management:

External Collaborators

a) The ILO repeatedly engaged the same External Collaborators (Consultants) in the field offices. The terms of reference (TOR) for their employment contract lacked information on the qualification and expertise required for the task they were hired. It was difficult to pass judgment on the reasonableness of fees awarded to the External Collaborators (Consultants) since the technical expertise and competencies of hired External Collaborators (Consultants) were not profoundly exposed in the TOR. Moreover, the performance of External Collaborators was noted to be based solely on the statement/certification of Programme Managers without the needed details as to the quality of work.

Recruitment

b) The ILO's procedures for direct selection of Directors, Chiefs of Branch and Directors of offices in the field is wanting of a written document and defined timelines for every recruitment procedures including systematic processes, rules and criteria for the hiring manager to determine whether to choose direct selection or call for expression of interest (competition). The non-delineation on a decision to initiate call for expression of interest in the recruitment of DC staff may allow influences that weaken professionalism, competency criteria and fairness. The duration of recruitment of Professional Staff under the RB and DC funds lacks consistency in meeting the targeted number of days to complete recruitment. There was also no Roster of Candidates which can speed up the recruitment process.

Staff Development

c) The ILO is yet to develop an updated single document to anchor and articulate Staff Development definition, goals and principles which is vital in describing the career paths of the workforce towards the realization or delivery of commitments and targets of the ILO through the Human Resource Strategy.

Staff Mobility

d) The ILO Mobility Policy is wanting of a mechanism to monitor staff undertaking mobility assignment. There is also no systematic check whether ILO Staff have undergone the required mobility during their career, as stated in Mobility Policy. The office directive is also silent on how geographical mobility will be encouraged and undertaken vis-à-vis the procedures of how officials can be reminded to share their interest in mobility with their responsible chief and HR partner with the intention of promoting and enabling the mobility of officials.

Gender and Diversity

e) The implementation of gender parity showed that the targets set on HR Strategy, ILO Action Plan for Gender Parity and HR/TALENT Workplan were diverge and requires the essential reconciliation since setting of targets on gender parity by the HR entails coordination with the Gender, Equality and Diversity (GED) to arrive at unified targets/indicators in achieving gender parity and diversity. The ILO needs to consider practicability and attainability in setting targets for UN-SWAP performance indicators.

Succession Planning

f) The Employee Profiles were not regularly updated. The update is crucial to the scheduled formal succession planning exercise and eventual establishment of a concrete Human Resource Succession Plan which is developed to assist in identifying the next in line and potential successor efficiently and effectively, thereby reducing the risk of possible loss of leadership, operations continuity, institutional knowledge and expertise.

Administration of Justice

g) There is a need for a systematic approach on conflict prevention and resolution since ILO actors operate independently from each other and their respective duties require a clearly defined mandate for effective coordination of the conflict management system. As a result, the actors tend to work in parallel rather than together. There is also no consolidated statistics or data on conflicts and/or grievances that will gear towards unified approach and will be useful and beneficial for a potential policy or regulation change. In addition, the January 2008 guide to ILO Conflict Prevention and Resolution Procedures was not updated despite the reforms introduced and implemented.

Ethics and Standards of Conduct

h) The ILO staff members were not fully aware of the services offered by the ILO Ethics Office and lacks confidence about the Whistle-blower Policy based on the result of the Ethics Survey. A harmonious working environment is essential to be productive and agile, hence, the systems, rules, and procedures are formulated and re-formulated to set a common standard for behavior and actions to ensure that the work contribute to the achievement of desired results.

Staff Survey

i) The ILO is yet to conduct a mental health and well-being survey which is vital in delivering the strategy to the Organization and the regular staff survey which can design if not redesign the established policies and implement key changes to increase the efficiency, output, involvement, dedication, productivity and improve well-being of staff.

Control Environment in Regional and Country Offices

j) Control gaps were noted in the Regional and Country Offices audited in 2019 needing reinforced supervisory controls, comprehensive results monitoring and robust enforcement of regulations and policies with sustained assessment of compliance with established frontline controls. This will better support the representations of field offices as to their control environment.

Summary of recommendations

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

a) the ILO should adopt a competitive selection process in hiring External Collaborators (Consultants) as well as adopt an updated policy for fees that can be applied by different ILO offices around the world. Fees should be justified by the level of complexity of the task. Since fees are based on the complexity of the task, the preparation of the detailed TOR should also include the qualification requirement and level of complexity of the work. The improved TOR should be attached in the IRIS to serve as reference in selection and form part of selection document;

b) the ILO should ensure that the Programme Managers complete the evaluation form and attach the document to the Payment Request before final payment is awarded to the External Collaborator;

c) the ILO should craft clear written procedures on hiring using direct selection containing appropriate controls including specific process timelines and corresponding status for more transparent, consistent and efficient recruitment process;

d) the ILO should craft a clear and concrete policy guideline delineating the use of call for expression on the recruitment of DC Staff; restricting discretionary authority to the minimum necessary and ensure that the reasons for exceptions are duly satisfied; and, supported with operating procedures containing appropriate controls including specific timelines and milestones;

e) the ILO should update the existing mechanism of recruitment and selection of local staff in the field offices to ensure a standardized recruitment procedure incorporating best practices; and supported by operating procedures containing appropriate controls including specific timelines and milestones. This updated mechanism should be endorsed by the JNC in accordance with article 4.2f of the staff regulations;

f) the ILO should set clear parameters to measure efficiency, effectiveness and timeliness of the various stages of the recruitment process which include among others, setting a maximum length for each process stream, and exacting accountability on the process owners to enhance better performance monitoring of the whole recruitment and selection process;

g) the ILO should design a mechanism that will hasten JD drafting and approval and will facilitate the identification and immediate resolution of any impediment and ensure timely vacancy posting for a more efficient recruitment and selection process;

h) the ILO should develop a system of rosters/pools of pre-assessed candidates to facilitate in the attainment of sound, timely and effective selection process;

i) the ILO should consider establishing, through the appropriate IGDS mechanism(s), a Staff Development strategy including, among others, the definition of staff development and outlining the corresponding goals and principles;

j) the ILO should reinforce and ensure availability of support, guidance, coaching and training for performance management with a focus on addressing underperformance and build increased awareness and uptake of the services available. The ILO should consider mandatory training for managers with development needs in the area of managing underperformance (as identified through their own performance appraisals and/or upward feedback or as evidenced in the quality of appraisals for staff reporting to them);

k) the ILO should enhance its mobility policy monitoring and implementation by establishing a robust tool or mechanism ensuring that information on officials' mobility are readily available;

l) the ILO should reinforce the integration of discussions regarding mobility into the performance appraisal process of staff in the professional category, to emphasise opportunities and encourage mobility assignments;

m) the ILO should explore the possibility of including mobility as a factor to be considered in the desirable profile outlined in job descriptions relating to Director positions;

n) the ILO should ensure the collaboration of offices as well as departments for an aligned, reconciled and consistent targets/indicator in the different documents regarding gender and diversity from various department and offices towards the achievement of a gender-sensitive workplace;

o) the ILO should develop realistic and workable targets for each UN SWAP performance indicator, considering limiting factors in the environment in the development of the ILO Gender Action Plan 2022-2025;

p) the ILO should conduct a regular campaign promoting the importance of the Employee Profile tool to boost compliance, thus optimizing its benefits in facilitating skills mapping which is vital to sound succession planning;

q) the ILO should consider drafting a succession plan as one of the output of the upcoming workshop of the HR/TALENT to have a concrete strategy and ensure preparedness of the Organization to avoid the risk of potential loss of leadership, continuity, institutional knowledge and expertise because of departure;

r) the ILO should consider a systematic approach to conflict resolution and prevention to ensure that the various actors and bodies involved can coordinate their respective efforts providing a more cohesive framework to address conflict whilst always respective of the confidentiality of each of the individual cases;

s) **the ILO should take steps to develop a consistent approach with respect to data collection and reporting of grievances and grievance outcomes to facilitate better monitoring and evaluation of efforts to reduce conflict within the Organization;**

t) **the ILO should facilitate the updating and enhancement of the user's guide to ILO conflict prevention and resolution procedures as part of efforts to promote a respectful work environment free from violence and harassment and to help ensure a consistent approach to conflict resolution across the Organization;**

u) **the ILO should enhance the Ethics Office's visibility, with the current constraints in Office time allocation, in the ILO intranet and webpage by updating, uploading and enhancing the visibility of Ethics intranet page including its Ethics e-learning module and for easy access of potential whistle blowers to communicate relevant information;**

v) **the ILO should facilitate the inclusion of the provision for external and independent appeals process for reporting persons in case of inadequate protection or when a prima facie case was not determined, in the whistle-blower policy;**

w) **the ILO should facilitate the implementation of the mental health and well-being survey and adhere to UN suggestion in its corresponding report on sexual harassment that survey be re-administered in two-year interval; and**

x) **the ILO should implement strategic solutions to strengthen their supervisory and monitoring controls over critical processes and decisions to ensure operational efficiency and effectiveness; and better support the certification made by the field office directors of the state of their control environment.**

Implementation of the External Auditor's recommendations in prior years

We noted in our validation of implementation of the 25 prior years' audit recommendations that 14 (or 56 per cent) had been fully implemented, one (or 4 per cent) had been implemented on an ongoing basis, six (or 24 per cent) had been partially implemented, and four (or 16 per cent) were still in the process of implementation.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

1. The Commission on Audit (COA) is an independent audit body created by the Constitution of the Republic of the Philippines. The 120-year old Supreme Audit Institution is an active member of the International Organization of Supreme Audit Institution (INTOSAI) and the Panel of External Auditors of the United Nations. The COA is extensively involved in setting accounting and auditing standards, building capacity and sharing knowledge. It has had extensive experience in providing external audit services to international organizations for the past 38 years, 20 years of which as a member of the United Nations Board of Auditors.

2. At its 323rd Session in March 2015, the Governing Body of the ILO appointed the Chairperson of the COA of the Republic of the Philippines as External Auditor of the ILO for the 75th and 76th financial periods that commenced on 1 April 2016 for a period of four years (2016−19). The mandate was further extended for two more financial periods from 2020 to 2023 by the ILO Governing Body during its 334th Session in October to November 2018. Chapter IX of the ILO Financial Regulations elaborates on the terms of reference governing external audit. The regulations require that the External Auditor 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 in 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 Flows; and (e) Statement of Comparison of Actual Amounts and Budget. It also includes an assessment of ILO’s compliance with 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 2019 and the results of its operations, cash flows, and comparison of actual amounts and budgets 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 Organization. We focused on areas of fundamental importance to the capability, effective management and reputation of ILO, on human resource management and operations of field offices.

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 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. A risk-based audit approach was adopted in the audit of the financial statements. This approach requires the conduct of risk assessment of material misstatements at the financial statements 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 of material misstatement including those caused by fraud or error.

10. During the financial year 2019, in addition to the audit of the financial statements, we also conducted audits on the: (a) Regional Office for Latin America and the Caribbean (RO-LAC), (b) ILO DWT/Country Office for the Andean Countries (DWT/CO-Lima), (c) ILO DWT/Country Office for Cairo (DWT/CO-Cairo), and (d) ILO Decent Work Team and Country Office for Central America, Haiti, Panama and Dominican Republic (DWT/CO-Costa Rica). In addition, we conducted an audit on the financial operations of the ITC in Turin.

11. We coordinated with the Office of the 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 Independent Oversight Advisory Committee (IOAC) to further enhance our audit work.

12. We continued to report audit results to ILO Management through audit observation memoranda 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 communicated to ILO Management to help enhance the efficient and effective management of the Organization.

1. Audit of financial statements

14. We audited the financial statements in accordance with the International Standards on Auditing and 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 2019, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with the 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.

15. In addition, we concluded that the accounting policies enumerated in Note 2 of the Notes to Financial Statements were applied on a basis consistent with that of the preceding year. Further, we concluded 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 ILO Financial Regulations and legislative authority.

16. We appreciate the efforts made by ILO Management to address a number of recommendations issued in the course of our audit of the ILO 2019 financial statements, in order to present fairly the balances of the affected accounts and improve the presentation and disclosures in compliance with the IPSAS.

17. In view of the global COVID-19 pandemic, the audit of financial statements was conducted remotely. The necessary access to ILO systems was provided to the External Auditor and audit procedures to verify the account balances and transactions were satisfactorily performed.

2. External collaborators

2.1 Transparency in selection process of External Collaborators

18. Temporary contracts such as External Collaboration Contracts are widely relied upon in the ILO to engage personnel, or otherwise have work undertaken for a temporary and defined period of time. In 2019, total expenses for consultants and individuals under External Collaboration contracts was US$40.89 million (US$35.2 million in 2018).

19. We observed several instances wherein the same External Collaborators (Consultants) were repeatedly engaged in the field offices. In reviewing the terms of reference (TOR) for their employment contract, the absence of information on the qualification and expertise required for the particular task they were hired for were patently lacking. It was difficult to pass judgment on the reasonableness of fees awarded to the External Collaborators (Consultants) since the technical expertise and competencies of hired External Collaborators (Consultants) were not profoundly exposed in the TOR.

20. The Management acknowledged the audit observation and informed us that services of External Collaborators are engaged through direct selection and are chosen based on their previous involvement in the ILO. The Management further shared that the ILO has no updated universal standard/policy for payment of External Collaborators' fees. The Management further agreed with the assessment that the ILO needs to do better and in a more systematic way with respect to selection of External Collaborators.

21. **We recommended that the ILO should adopt a competitive selection process in hiring External Collaborators (Consultants) as well as adopt an updated policy for fees that can be applied by different ILO offices around the world. Fees should be justified by the level of complexity of the task. Since fees are based on the complexity of the task, the preparation of the detailed TOR should also include the qualification requirement and level of complexity of the work. The improved TOR should be attached in the IRIS to serve as reference in selection and form part of selection document.**

22. **ILO response.** The Office has undertaken a comprehensive review of the external collaboration contract procedures in 2019 in consultation with a wide range of other internal stakeholders (such as regional finance and administration staff, the procurement bureau, and technical departments). The revised draft version of the Office Directive has addressed the recommendations on the determination of fees, improvement of TORs, and the need for a competitive selection process. However, considering that IAO will conduct a specific performance audit on external collaboration contracts in 2020, the Office Directive will be finalized after the completion of this audit, taking into account IAO's recommendations, as appropriate.

2.2 Evaluation of performance of External Collaborators

23. Field offices treat the certification by the Programme Manager that the payment of External Collaborators fees is in conformity with the purpose stated in the agreement included in the Payment Request as equivalent to performance evaluation.

24. With the current practice of assessing External Collaborator's performance solely on the basis of the statement/certification by the Programme Manager, without providing clarity as to the specifics and quality of work done, the External Collaborator is not appropriately assessed. Moreover, the lack of proper evaluation effectively deprives decision-makers of information on challenges identified or learnings discovered during the engagement.

25. Evaluation of the performance of External Collaborators is important because it describes not only the quality of work in terms of timeliness in delivery of expected output and compliance with the specific duty requirements specified in the TOR, but also contains relevant comments/recommendations of the Programme Manager as they relate to the work performance of the External Collaborator which, in turn, serves as reference or guide in selection of External Collaborators for future needs.

26. The Management committed to improve the existing performance evaluation process for External Collaborators. Accordingly, on 13 November 2019 issued IGDS No. 553 (version 1) to address performance issues relating to external collaborators, grantees, implementing partners and vendors. We maintain the recommendation on completion of the evaluation form before payment.

27. **We recommended that the ILO should ensure that Programme Managers complete the evaluation form and attach the document to the Payment Request before final payment is awarded to the External Collaborator.**

28. **ILO response**. It is not clear whether the audit recommendations have taken into account the provisions already in place: Office Procedure, *Performance issues relating to external collaborators, grantees, implementing partners and vendors,* IGDS No. 553 (version 1) of 13 November 2019,. According to the procedures already in place, the ILO Contracting Officer authorized to enter into external collaboration contracts is responsible for monitoring that the collaborator performs its contractual obligations on time, within budget and in conformity with the agreed terms and conditions. Performance issues of third parties are to be documented in a timely, thorough manner and kept on file. Given the very different nature of outputs to be performed by ILO external collaborators, it would be very difficult to develop a

one-size-fits-all evaluation form. This is the reason why such a tool was not introduced in the procedures introduced by IGDS No. 553.

3. Human resource management

29. ILO's current human capital strategy is premised on the statement: *An efficient and effective Human Resource function for an agile and responsive ILO*. Accordingly, it projects that an efficient and effective Human Resource (HR) function is key to achieving the goals of the ILO's Strategic Plan for 2018–21 and those of the wider UN System to which the ILO contributes. A rapidly changing world of work requires a high level of organizational responsiveness. At the same time, effective governance and efficient support services allow the optimal use of resources for greater impact of the ILO's work. In summary, the strategy aims to achieve the following expected changes: (a) enhanced organizational agility; (b) engaged employees; and (c) enabling HR function through the ILO specific means of action and key outputs.

30. The achievement of the targeted changes will greatly depend on the current organization-wide human resource management arrangements, particularly on how controls and responsibilities are implemented. As a business function of any Organization, managing human resources must always create value through strategic management of its workforce towards the achievement of the Organization's strategic objectives. In our review, we observed the following opportunities for improvement.

3.1 Recruitment and selection policies and procedures

31. The ILO Management and ILO Staff Union amended the Collective Agreement (CA) regarding the procedure for recruitment and selection in March 2014 to adopt a comprehensive procedure for recruitment and selection. The procedure was anchored on the principles of *transparency, due process, fairness and equity, having regard to the Office's need to ensure the highest standards of competence, efficiency and integrity, and of relevant international law, including international labour standards and other ILO instruments, and aiming at ensuring timeliness, efficiency and objectivity*. The agreement was implemented through agreed amendments in the Staff Regulations.

3.1.1 Clear written procedures on the Direct Selection of Directors, Chiefs of Branch and Directors of offices in the field

32. The basic principles underlying recruitment as set out in the Organization's staff regulations and rules should be further elaborated through policies and procedures that provide clear guidance for the implementation of the selection process on a day-to-day basis. A detailed procedure in all areas is essential to guide the actions of hiring managers and ensure transparency, fairness and effectiveness in the selection process while reducing subjectivity.

33. Article 4.2(d) of the Staff Regulations provides that Director vacancies shall be filled by the Director General (DG) by transfer in the same grade, promotion or appointment. On the other hand, Chiefs of Branch and Directors of offices in the field are filled by transfer in the same grade, promotion or appointment by direct selection by the DG as provided in article 4.2(e).

34. Inquiry to the Management on which staff categories and grades are covered by the above provisions disclosed that the branch chief refers to D1 positions in the Headquarters, Directors of offices in the field refer to P5 positions, and Director under 4.2(d) refers to D2 positions. Management explained that these are manned through direct selection, and that vacancies for other positions are filled by internal transfer, promotion or competitive recruitment.

35. Management narrated that under the direct selection of filling vacancies, the DG may decide to call for expressions of interest or otherwise. The ILO recruited for the year 2018/19 seven D2s covered by article 4.2(d) and 18 D1s and two P5 Officials (Director of field offices), covered by article 4.2(e), the number of call for expression of interest (19) is higher than direct selection without call for expressions of interest (8).

36. Inquiry as to the availability of separate guidelines on recruitment and selection by direct selection on article 4.2(d) and first item of article 4.2(e) revealed that the procedures were not covered by any written instruments and specific timelines have not been defined for each of the procedures of recruitment using the direct selection for *with or without call for expressions of interest*. The step-by-step procedures presented are only informal arrangements adopting the practice of the organization in recruiting Directors, Chiefs of Branch and Directors of Field Office positions in relation to the requirements of the staff regulations. The Management stated that a proposed workflow for direct selection with or without a call for expressions of interest for Directors, Chiefs of Branch and Directors of Office Positions is currently in draft.

37. While we have not seen a significant problem arising from the step-by-step procedures in filling vacancies using direct selection with or without a call for expressions of interest, it is advisable to adopt guidelines clearly defining the procedures for consistency and transparency. This proposal is aligned with the JIU's recommendation (JIU/REP/2012/4) that *detailed written procedures shall be in place to guide and document each step of the recruitment process*. These procedures shall be duly disseminated among hiring managers, and consistently applied and effectively implemented, with due regard to transparency and timelines throughout.

38. **We recommended that the ILO should craft clear written procedures on hiring using direct selection containing appropriate controls including specific process timelines and corresponding status for more transparent, consistent and efficient recruitment process.**

39. **ILO response**. The Office agrees and has already started the work on drafting clear guidelines and workflow on the recruitment and selection procedures for hiring officials through direct selection. The areas identified in the recommendation will be addressed while building on the information emanating from consultations with departments concerned. More specifically, the guidelines and workflow will include process timelines and clear definition of roles and responsibilities at different stages of the process.

3.1.2 Clear and concrete policy on recruitment of staff in development cooperation (DC) projects

40. Staffing in the DC Projects are filled by transfer in the same grade, promotion or appointment by direct selection by the DG, however, the DG may at his discretion and after

consulting the Recruitment, Assignment and Mobility Committee (RAMC) decide on the use of one or other of the methods of filling vacancies referred to in article 4.2(f).

41. For calendar years 2018–19 the ILO hired 981 DC staff. We have reviewed the recruitment of six G staff assigned in Geneva and 75 P staff and noted that 29 were recruited through call for expressions of interest and 52 through direct selection at the discretion of the DG.

42. As gleaned in the existing procedure on recruitment of DC staff, there are guidelines prepared by HR/OPS on: (a) recruitment of non-local staff members on fixed term contracts; and (b) a chapter in the Technical Cooperation Manual dealing with HR-related matters including recruitment.

43. Review of the guideline on recruitment of non-local staff members on fixed term contracts disclosed that the procedures are not mandatory since the wordings used on prospection and selection process is "HRD strongly recommends". Also, the chapter of the DC Manual has a reservation that *it summarizes and supplements but does not substitute the relevant provisions of the ILO Staff Regulations and other official documents*.

44. Management expounded that these guidelines are available to hiring managers to help them understand how to prepare job descriptions for development cooperation projects, market research, advertising, screening of candidates, shortlisting, panel report and appointment. Management stated that recruitment processes concerning DC staff indicate recommended good practices without legally binding effect, as it remains in the context of article 4.2(e) of the Staff Regulations, whereby direct selection by the DG is the normal method of filling DC project vacancies.

45. It appears that there is no systematic procedure nor grounded rules and criteria for the hiring manager to determine whether to choose direct selection or a call for expressions of interest (competition). We also underscore that having procedures that are not mandatory undermines the recruitment process. While we note the uniqueness of the recruitment of DC staff, detailed procedures should be consistently applied and effectively implemented. Also, the non-delineation of when to initiate a call for expressions of interest or not in the recruitment of DC staff may allow decisions to be taken according to influences that weaken professionalism, competency criteria and fairness.

46. **We recommended that the ILO should craft a clear and concrete policy guideline delineating the use of call for expression on the recruitment of DC staff; restricting discretionary authority to the minimum necessary and ensure that the reasons for exceptions are duly satisfied; and, supported with operating procedures containing appropriate controls including specific timelines and milestones.**

47. **ILO response**. Use of direct selection for DC recruitment constitutes the normal method of filling vacancies as per the ILO Staff Regulations. Increasingly, a system of call for expression of interest has been used but can only be partially developed, as filling of these vacancies is most of the time an urgent process in line with the imperative of rapid deployment and work on the ground.

3.1.3 Clear delegation of authority to field offices

48. Article 4.2(f) provides that in cases of local staff in external offices, recruitment and selection shall be done through other existing mechanisms and new mechanisms or changes to existing mechanisms for recruitment and selection of local staff in external offices shall be endorsed by the Joint Negotiating Committee (JNC).

49. The Regional Offices of Africa, Latin America and Caribbean Region, and Asia and Pacific adopted their own recruitment procedures. On the other hand, the recruitment and selection of local staff for the Regional Office of Europe and Central Asia is handled by the HRD. Remarkably, the Regional Office for the Arab States does not have its own recruitment and selection policy and procedure on recruiting local staff.

50. An inquiry was made with the Management on ensuring that field offices procedures are in line with principles embodied in the Collective Agreement (CA) with the staff union and the provisions of the staff regulations. Management answered that the HRD provided suggested best practices in the recruitment of local staff in external offices (RB Positions) on March 2015, although not approved. These were issued to the regional offices, including Arab States, but it is not mandatory. Management further clarified that this is not approved, as envisioned, as a set of guidelines that each region may wish to use to develop their own Recruitment and Selection procedures, for discussion with regional staff union members and submission to the JNC as indicated in article 4.2(f) of the Staff Regulations.

51. We noted that part of the intention of the 2014 CA is to include subsequent discussion on recruitment policies for field offices, but this did not materialize. Management commented that it cannot issue official guidance on this without the approval of the staff union.

52. While we can presume that the Regional Office of Arab States uses the suggested best practices as disseminated by the HRD and that the segregation of roles and responsibilities in the Geneva CA may not be appropriate for field offices given their staffing structures, we underscore that in delegation of authority there must be clear division of responsibilities and accountability for each step of the recruitment process, including for making recommendations and for the final decision.

53. **We recommended that the ILO should update the existing mechanism of recruitment and selection of local staff in the field offices to ensure a standardized recruitment procedure incorporating best practices; and supported by operating procedures containing appropriate controls including specific timelines and milestones. This updated mechanism should be endorsed by the JNC in accordance with article 4.2(f) of the Staff Regulations.**

54. **ILO response.** A set of best practices in terms of recruitment has been prepared and circulated to Regions for appropriate reference in the context of their existing processes. The Office considers that a one-size-fits-all mechanism of recruitment and selection of local staff across all field offices will not be implementable. As referred to in our Staff Regulations, new mechanisms or changes to existing mechanism for recruitment and selection of local staff in external offices need to be endorsed by the Joint Negotiation Committee prior to implementation.

3.2 Recruitment and selection methods

55. One of the means of action identified in the ILO HR Strategy to engage employees is that *from 2018, a new e-recruitment system will progressively support all types of recruitment processes and provide the Office with a range of new functionalities that will enhance the efficiency of these operations. This includes facilitating shorter lead times for recruitment for both Development Cooperation and Regular Budget positions.*

56. The recruitment and selection procedures of the methods mentioned in article 4.2 are provided in Annex I of the Staff Regulations, Standard Operating Procedures (SOPs) of Staff Operations (HR/OPS) and pertinent issuances of HRD. Accordingly, there is a delineation of HR Responsibilities and Roles for Job Requisitions in the IT platform for recruitment in ILO People depending on the funding source. The Field Office and Regional HR Partner manages the full process for National Professional Officer (NPO) and GS categories in the field offices. On the other hand, the HRD (HR/RES or HR/OPS) at HQ (Regional HR Partner involved for Development Cooperation Projects in the field) manages the full process for P Category in the HQ and Field Offices, and GS at HQ. Corollary, a centralized process by the HR/RES and HR/OD with Regional HR Partner for P Category in the Field and HQ, and GS (HQ).

57. We noted that the recruitment procedures in the ILO is complex as it differs depending on the source of funds (Development Cooperation (DC) or Regular Budget (RB) positions), level (Director, Professional, General Service, National Professional Officer) and duration (temporary, call for expressions of interest or regular recruitment).

3.2.1 Enhancement of parameters in recruitment and selection

58. The key indicator in shortening lead times for recruitment for both DC and RB Positions is the average time required to recruit staff in DC projects (P staff) which is 120 days (from project approval by the donor to assignment start date). The baseline of the target is 200 days. We noted that the indicator applies only to P staff and DC funded. However, Management informed that the 120 days from announcement to decision remains their average target. This target is in line with the JIU recommendation that the recruitment time from vacancy posting to selection decision does not exceed 120 days.

59. Anchored on the key indicator and the JIU recommendations, we reviewed the duration of recruitment of P staff under the RB and DC funds of 34 and 14 candidates, respectively, from job requisition to assumption to duty of selected staff for the Calendar Year 2019. It was observed that the target is not met even if the period considered is the JIU recommendation, i.e. 120 days from vacancy posting to selection decision. The duration of recruitment of DC P staff (182 average days) is shorter than that of RB P staff (209 average days) by an average of 27 days.

60. The procedure for the recruitment of RB funded P Category, is explained in detail in Annex I of the Staff Regulations, in summary, it consisted of: (a) requesting for the opening of vacancies and review of vacancy announcement; (b) identification of opportunities for filling vacancies by transfer in the same grade or through mobility; (c) evaluation of other applications; and (d) decision making by the DG.

61. We computed the duration from start of advertising of Vacancy Notice to the decision of the DG in the recruitment of P staff (RB) for the calendar year 2019 and noted that 24 out of 33 (72.72 per cent) recruitments exceeded the 120 days target. With the longest duration of 344 calendar days. On the other hand, recruitment of P staff (DC) the procedures differ. The recruitment method could be direct selection or through call for expressions of interest. Accordingly, we also determined the duration of the recruitment of DC P staff that underwent call for expressions of interest and noted that 13 out of 15 recruitments (86.67 per cent) of P staff (DC) exceeded the 120 days target with the longest duration of 289 calendar days. Similarly, there are 36 positions that are still in the pipeline and correspondingly not filled as at 18 November 2019 where ten out of the 36 positions (27.78 per cent) are beyond 120 days and with the longest duration 285 calendar days.

62. Close monitoring is separately done by the Operations Branch (OPS) and Resourcing Unit (RES). However, Management explained that while there is a target of 120 days, there is no mini-timeline in each process. Resourcing Unit of the HRD did use some timeline indication for each steps but this was discontinued. The Business Process Review (BPR) has also made a review of the key points in the recruitment process.

63. However, the monitoring of the HRD does not include information relative to the number of days consumed in each stage of process; and even if the same is available, such information may be deemed immaterial considering that there are no standard parameters that can be used for comparison to determine actual performance. In the absence of these mechanisms, the specific causes of delay were not established and appropriate steps or strategies addressing the same were not formulated and eventually applied.

64. We underscore that the inordinate length of time taken to fill vacant post becomes now a major obstacle which could result in insufficiency of workforce that could affect the delivery of the mandate particularly in the effective and efficient implementation of programmes.

65. We concur when JIU emphasized that inefficiencies in the recruitment process are due to the lengthy process, and hence, recommended that recruitment time from vacancy posting to selection decision does not exceed 120 days. They further stated that some organizations do not track recruitment times, which is a management shortcoming. The JIU opined that close monitoring by human resources departments and proper accountability are key elements for improving the situation.

66. **We recommended that the ILO should set clear parameters to measure efficiency, effectiveness and timeliness of the various stages of the recruitment process which include among others, setting a maximum length for each process stream, and exacting accountability on the process owners to enhance better performance monitoring of the whole recruitment and selection process.**

67. **ILO response.** The office will start reviewing the possibilities that the ILO Jobs tool can offer to set up clear parameters to measure efficiency, effectiveness and timeliness on each step of the recruitment and selection process.

3.2.2 Lag time before approval of VA for publication

68. One of the stages in recruitment is job opening, which entails the process of issuing a vacancy announcement (VA) for a particular post or set of posts. Examination of the average duration from the date a job was requisitioned in to publishing the Vacancy Notice of P staff disclosed that the duration for RB is lengthy compared to that of DC.

69. Walkthrough of the procedures for job opening in the recruitment of RB P staff showed that this is covered in Stage 1 of the recruitment process. On the drafting and approval of the Job Description (JD) we noted that the process involves: (a) Drafting of JD by the Hiring Manager (HM); (b) Review of JD by Organizational Design (OD) Unit; (c) Resourcing (RES) Unit provides JD to Staff Union Committee (SUC) for review; (d) RES submits JD to PROGRAM for comments; and (e) RES finalize the JD. If there are diverging views on the JD, it goes to RAMC and DG for final decision. Management informed us that there is a deadline of a maximum of 30 days for JD approval. Review of the duration of JD approval of RB P Staff for the Calendar Year 2019 disclosed that 12 out of 22 (54.54 per cent) JD approvals exceeded the 30-day requirement of approval (ranging from 34 to 76 days).

70. Management explained that the impediments in the approval of JD could be the time required to classify a JD that includes discussions with the HM, review by the SUC, discussion of any diverging views held by SUC, OD Unit and HM, and finally if diverging views persist, submission to RAMC for discussion and recommendation to the DG. Part of Job Opening after approval of the JD are translation of the JD by OFFDOC; preparation of outreach; and the review by RAMC of the JD. Upon decision to post the Vacancy Notice, the RES drafts the Vacancy Notice in the IT platform ILO Jobs. However, review of the duration from JD approval to start of publication showed that some are immediately posted and some take one to 41 days. For the recruitments of RB P staff for Calendar Year 2019, there are ten recruitments where the publication took eight to 41 days from approval of JD.

71. Under the Recruitment, Assignment and Placement System (RAPS) for professional regular budget positions, vacancies are grouped for a more targeted effort and closer monitoring. Accordingly, we noted that RES launch all competitions through posting in the RAPS. The RAPS is launched a minimum of three rounds in a year: February or March; June or July; October or November. RES include in each RAPS round those vacancies that are approved. Hence, those positions not approved will be published in the next RAPS round. This explains why the ten Vacancy Notices were not advertised sooner despite approval of JD.

72. The length of time that vacant posts remained unadvertised contributes to the lengthy recruitment process. The Office’s strength depends on having a competent and committed workforce capable of delivering the ILO’s social justice mandate and responding effectively to constituents. To do so, it must be able to attract, develop, engage and retain staff with the right skills in a timely manner. Conversely, long and convoluted hiring processes affect the existing workforce, can damage the ILO’s reputation and the delivery of the ILO’s mandate.

73. **We recommended that the ILO should design a mechanism that will hasten JD drafting and approval and will facilitate the identification and immediate resolution of any impediment and ensure timely vacancy posting for a more efficient recruitment and selection process.**

74. **ILO response.** The Office will start designing mechanisms to support the formulation and validation of job descriptions with the participation of HRD Branches concerned, aimed at resolving issues in an effective and efficient manner and will count on the collaboration of the hiring manager, the staff union committee and the technical department concerned.

3.2.3 Systematic maintenance of rosters/pools of pre-assessed candidates

75. Among the best practices from other United Nations organizations and the recommendations of the JIU is establishing rosters/pools of pre-assessed candidates in line with organizational needs for recruitment for specific categories of posts and occupational groups, as appropriate, to expedite the recruitment process. This entails that: *(a) Rosters/pools of assessed candidates who have been recommended for either a specific vacancy or a generic job opening, but not yet selected; (b) Roster managers ensure that the expectations of hiring managers are met in terms of availability of candidates and length of time that candidates remain on the roster; (c) Relevant roster databases are up-to-date and user friendly; and (d) Periodic evaluation of roster/pool systems is undertaken and results fed back into the process.*

76. Inquiry with Management on the maintaining of rosters/pools revealed that there is no current Roster of Candidates in the recruitment. Management further stated that considering that the ILO is a technical agency, it requires specific job descriptions on specific technical areas, hence, will be difficult to prepare many rosters of candidates.

77. We noted, however, that the Organization have several specific recruitment: a roster of interpreters (run by RELMEETINGS); roster for translator for all official/working languages (run by RELMEETINGS); and a roster for internship, replenished every six months. Also, there is an existing practice to consider recommended candidates to a competition if within the coming 12 months a similar vacancy, at the same location is to be advertised; in this case, the vacancy is not republished and HRD proposes the respective candidate to RAMC.

78. Therefore, it can be gleaned that there is an existing roster of the ILO only on specific recruitments. Management explained that there is also an issue in ILO Jobs which is currently not set-up for roster creation. However, management admitted that it will be value adding if there will be specific rosters system. This is corroborated by one of the key activities in the OPS work plan – *A roster system for rapid DC deployment is developed through ILO JOBS.*

79. **We recommended that the ILO should develop a system of rosters/pools of pre-assessed candidates to facilitate in the attainment of sound, timely and effective selection process.**

80. **ILO response.** The Office takes note of the recommendation. However, without a modification of the ILO rules and regulations on recruitment and selection that will provide the possibility to pre-screen candidates from rosters, the Office will not be in a position to implement this recommendation for all ILO vacancies. At this stage the Office will start benchmarking best practices developed by other UN agencies in using rosters for specific/technical vacant positions and will consider how the ILO could adapt the roster process to the ILO's legal framework on recruitment and selection.

3.3 Staff development

81. In the rapidly changing world of work, the demands of the global labour response are becoming increasingly complex. Staff development should run parallel to ensure that staff at all levels of the Organization have the experience, knowledge and competencies required to deliver the objectives and core advocacy, and that they are driven to learn and adopt to new challenges while managing their own careers.

3.3.1 Importance of Staff Development Strategy

82. ICSC: Framework for HR Management Broad Principle for Staff Development and Learning stated that *"appropriate learning and development opportunities for staff and management are essential to enable organizations to engage staff, build capacity for delivering excellent results, overcome challenges and adapt to changing conditions"*. One of its indicators is to put in place a Staff Development Policy.

83. The Staff Development Strategy supports Human Resource Strategy where the various staff development programmes are anchored. It states how the workforce moves to realize the mandate and the strategic objectives of the Organization hand in hand with their own professional development. It aims to ensure that the Organization has the culture, policies, goals, procedures and funds in providing a stimulating and inclusive support and environment for its people to achieve organizational objectives as well as their own professional and personal objectives.

84. Management asserted, regarding our inquiry on the Staff Development Strategy, that there are IGDSs related to Staff Development. In the review of these documents, we agree with Management that these guidelines and information notes (IGDSs) including minutes that outlines the priorities for each biennium – both for centrally managed staff development funds and devolved staff development funds – very well responds to staff development.

85. Specifically, IGDS No. 9 dated 11 April 2008, discusses assistance of sectors, departments and regions in the usage of the staff development funds. It also provides guidance in defining priorities submitting proposals and approving training allocations. Management explained that *the use of the Staff Development Fund is programmed based on these priorities as well as the commitments that are made regarding staff development in the HR Strategy and various action plans (Gender, Diversity, and Environmental Sustainability) as well as audit and JIU recommendations*. Management further clarified that with *the devolved funds, each office/department is asked to prepare a learning strategy of how their funds will be used in line with the priorities outlined in the minute, their office/department priorities and the individual learning needs that are identified through the development objectives in the performance appraisal and beginning of cycles (BOCs).*

86. With all the corresponding IGDSs, the Human Resource Strategy is wanting of an updated single document to anchor and articulate its staff development definition, as well as the goals and principles. We acknowledge that IDGS No. 9 (Information Note) ensures efficient use of the staff development fund and the delivery of the learning strategy of each office/department. However, it necessitates to apprise predictable career path (inform staff what comes next in their career), which allows staff to work through challenges rather than feel stymied. Apart from the concrete staff development definition, the staff development goals, and

principles are vital in describing a career path. Thus, staff tend to look forward to what is on the horizon for themselves and the Organization.

87. Overall, a staff development strategy in which existing programs shall be fastened helps staff feel invested in their jobs and the Organization mandate. A well-established staff development strategy ensures that staff continue to feel driven to advance their own careers within the Organization, as well as to advance the Organization's strategic objectives.

88. The development of a staff development strategy is a strategic priority and a key factor in delivering on the targets and commitments of the ILO through its Human Resource Strategy. Its purpose applies more generally to the whole workforce and how to support their professional as well as their personal growth in the Organization. The intention is to create a culture of learning and constructive attitudes, to build workforce potential, and to equip staff with the tangible and intangible abilities to deal with any challenges the future of the world of work may hold.

89. **We recommended that the ILO should consider establishing, through the appropriate IGDS mechanism(s), a Staff Development strategy including, among others, the definition of staff development and outlining the corresponding goals and principles.**

90. **ILO response.** The Office will undertake a review of staff development strategies that are in place in other UN organisations and develop an ILO Staff Development Strategy in consultation with the Joint Training Council, for implementation through the appropriate IGDS mechanism(s). The strategy will include, among other things, the definition of staff development and will outline the corresponding goals and principles.

3.3.2 Mandatory training for managers with development needs in the area of managing underperformance

91. The JIU in their report entitled *Training Institutions in the United Nations System: Program and Activities* aptly stated that *in these times, characterized by dramatic organizational changes, the United Nations system organizations must invest in training with the objective of enhancing their staff's ability to cope with new legislative mandates and preparing them to adapt to change and to assume new tasks. Staff who fail to acquire the necessary knowledge and skills may contribute to a regrettable situation both for themselves, who become unable to assume their proper share of the organizations' work, and for the organizations, whose ability to operate in an effective manner is adversely affected*.

92. Assuming a new task as a new supervisor includes managing staff performance. Performance management in the ILO is governed by the Staff Regulations, guided by Performance Management Framework (PMF) intended to optimize performance management and to support a productive relationship between supervisors and their staff. It operates as a continuous cycle and is intended to support and develop staff members throughout their career with the ILO.

93. Part and parcel of managing performance is dealing with underperformance which can be challenging and confronting for both the staff and managers alike, but it does need to be addressed. Dealing with underperformance is a real challenge, more so, for any new manager.

It is common knowledge that even experienced managers admit that this is one of the toughest parts of their job.

94. It is interesting to note that there are several options for obtaining proficiency concerning performance management and one of these is the Management and Leadership Development Programme (MLDP) booklets which provide useful additional reading with regards to performance management, managing teams, motivating and empowering staff, and delegating and coaching. Management added that a Training on ILO PMF – computer-based course will become available online (for Headquarters). Still, there is a need to support especially new managers, when it comes to dealing with underperformance under the perspective of a manager’s role. HRD further commented that it will provide more support in these areas and initiatives are already underway which include: (a) a Handbook on how to deal with underperformance in final edit; (b) a Report on disciplinary sanctions taken during the biennium to be published; and (c) a Peer Coaching Network of managers with experience in managing underperformance being established to provide additional support for managers embarking on the process.

95. On the other hand, the Business Process Review stated that: “*many things, inside and out of the work environment, can affect an individual's performance. We want to be able to support managers to identify underperformance early and work with the individual to understand why it is happening and what can be done to resolve it; taking into consideration whether the issue is a one-off dip in performance or an on-going performance problem where the individual is clearly not operating at the required level”*.

96. It is expected that ILO line managers provide help, support and encouragement to assist individuals reach and maintain the required standard of performance. It is also important that managers are aware of the formal processes and consequences provided for in the Staff Regulations for the few cases where, in spite of the support provided, performance does not reach the expected level.

97. The best way for managers to handle poor performance issues is to take action to avoid performance problems before they occur. This includes providing training to managers on how to handle underperformance issues so that managers can learn how to approach matters in real-life scenarios. Well-trained managers are better able to identify and address issues of underperformance. Further, the ICSC considers that performance improvement measures should be integrated more explicitly into performance management strategies. Supervisors, in particular, would need clear procedures, organizational support and most of all the competence to handle underperformance issues. This may require cultivating the managers’ skills and competencies for managing underperformance and tracking the actions taken in this regard through relevant training, which were found to be under the staff’s own initiative and not mandatory.

98. Training on managing underperformance is foreseen as a vital part of the PMF and capacity-building process which is needed to ensure an effective and consistent application of policy both from staff members and supervisors. Mandatory training on underperformance management needs to be instituted particularly for those who will assume supervisory position.

99. **We recommended that the ILO should reinforce and ensure availability of support, guidance, coaching and training for performance management with a focus on**

addressing underperformance and build increased awareness and uptake of the services available. The ILO should consider mandatory training for managers with development needs in the area of managing underperformance (as identified through their own performance appraisals and/or upward feedback or as evidenced in the quality of appraisals for staff reporting to them).

100. **ILO response.** The Office will send out communications to emphasise the services available to support managers in performance management, including addressing underperformance. Mechanisms to identify managers with development needs in this area will be strengthened and will include review of performance appraisals, upward feedback and comments from the Reports Board regarding quality and timeliness. Managers identified as having issues will be required to attend specific training. Depending on the volume and profile of the staff this may be accomplished through existing programmes or a specific programme focussed on performance management may need to be developed.

3.4 Staff mobility

101. Staff mobility is a critical component of career development, and a key element in advancing the staff and non-staff member's skills and abilities. It is crucial in addressing varied operational needs for skills in various locations and is likewise essential for creating more versatile, multi-skilled and experienced international civil servants capable of fulfilling both the requirements of headquarters and that of the complex field activities.

102. The primary aim of the ILO's mobility policy is to provide opportunities for ILO staff members on regular budget to gain exposure to developmental challenges and diverse work experiences across the ILO's geographical office network and functions, thereby strengthening the Organization's capacity to respond to the different needs of its constituents and deliver its mandate more effectively.

103. The ILO currently delivers programmes in 85 countries through headquarters and over 50 regional, sub-regional and country offices. The ILO encourages staff members to expand their skills and experience by applying for positions involving geographical and/or functional and/or temporary mobility assignments.

3.4.1 Articulation of the mobility policy within the ILO

104. The review with regards to the ILO's mobility policy is undertaken with reference to the directions set forth under office directive IGDS No. 413 (version 3).

105. Circumspect review revealed that the subject office directive is detailed with regards to the: *Objectives of the mobility policy, Scope of application, Procedures for mobility, Time frames, Definition of geographical, functional and temporary mobility as well as the Roles and responsibilities for mobility*, however, with respect to its implementation, the mobility policy is wanting of a strengthened monitoring of staff undertaking mobility assignment. This is specifically crucial to those officials in the Professional and higher-level categories to ensure that, in the course of an ILO career, they have undertaken at least one geographical mobility assignment in the field or in the ITC–ILO, or in another international organization, as well as at least one at headquarters. The office directive is also silent on how geographical mobility will be encouraged and undertaken vis-à-vis the procedures of how officials can be reminded

to share their interest in mobility with their responsible chief and HR partner with the intention of promoting and enabling the mobility of officials. This is to benefit the official in developing wide experience and knowledge of the ILO's work in different functions, the value of transferable skills which need to be considered in the context of building "one global ILO" and enhancing organizational effectiveness as the ILO clearly expressed in its mobility policy. The directive further stated the provision of opportunities for professional development and that it can be a motivational experience for staff. It highlighted responsibilities of HRD, responsible chiefs and senior managers as well as officials.

106. We requested for a list of those nearing retirement until the year 2024 with corresponding information of their place and date of geographical mobility undertakings to review the monitoring and evaluation of the implementation of the Mobility Policy. Management informed that *requesting the historical information would take some time and would require to build a new report for which needs to involve INFOTEC developers. And, if really needed of this level of details, it will raise a ticket to INFOTEC.*

107. Inquiry with Management regarding the readily available information bared the lack of an existing tool or mechanism at HRD's disposal which drives speedy information and complete identification of staff movements for monitoring purposes, especially of those officials in the Professional and higher-level categories that undertake at least one geographical mobility assignment. A tool to assist in ensuring information that, in the course of an ILO career the official had undertaken mobility or are exempted due to their unique job description.

108. Management further commented that *there is no systematic check whether ILO staff have undergone the required mobility during their career, as stated in the mobility policy. Similarly, there is no sanction if an ILO Staff did not undergo the required mobility.*

109. **We recommended that the ILO should enhance its mobility policy monitoring and implementation by establishing a robust tool or mechanism ensuring that information on officials' mobility are readily available.**

110. **ILO response.** The current ILO HR strategy has targets for mobility agreed with the Governing Body for 2018-21. Both functional and geographical mobility are being monitored as stated in indicator 1.1 of the ILO HR strategy.

3.4.2 Encouragement of staff mobility assignment in the Professional category through Performance evaluation process

111. Further to the information gathered regarding mobility of those nearing retirement occupying Professional positions (from P3) and above, it revealed that of the 90 regular staff retiring from year 2019 to 2024 with the exception of those occupying position whose nature of their functions are exempted, only 34 had undertaken geographical mobility.

112. The IGDS No. 413 (version 3) Mobility policy of the ILO is clear in paragraph 13 that *the majority of officials in the Professional and higher-level categories are expected to be geographically mobile. Officials in the Professional and higher-level categories should, in the course of an ILO career, undertake at least one geographical mobility assignment in the field or in the ITC–ILO, or in another international organization, as well as at least one at headquarters. However, it is recognized that there are some occupational groups for which*

there are very limited opportunities for geographical mobility because of the technical or specialized nature of their functions and the lack of availability of the same or similar posts in different duty stations of the Office.

113. In addition, Management bear that *mobility in the ILO is not mandatory per se. The ILO uses the concept of "managed mobility", which means that if an international staff member wishes to move to another duty-station, this is encouraged, incentivized – via a series of benefits and supported, via the stage 2 of the recruitment and selection procedure. This means that if a Professional Staff in certain field office is happy and content with his work despite that he is due for geographical mobility, the ILO will not compel him to undergo geographical mobility.*

114. Management further explained that undertaking mobility is the initiative of the official and the ILO is responsible for facilitating and encouraging mobility through appropriate incentives and other supportive measures. Thus, any sanction is remote to be implemented.

115. Therefore, significant and relevant is the incorporation of mobility within the Performance Management Framework (PMF), where one of the main pillars is – *it requires continuous dialogue and feedback between staff and managers to formulate performance requirements and developmental objectives and to monitor progress and evaluate results.*

116. Further from the PMF, it stated that *effective performance management is based on a two-way exchange between the official and the manager. Through the performance management process staff members will gain greater clarity about goals and expectations for their work unit and their own work, and <u>have opportunities to discuss and work with their manager on their ongoing professional development</u>.*

117. Discussion of professional development opportunities can include highlighting the benefits of the ILO's staff mobility which are developing a wide experience and knowledge of staff and officials' work in different functions, the value of transferable skills which need to be considered in the context of building "one global ILO" as well as enhancing organizational effectiveness.

118. Considering that the mobility policy implementation is within the concept of *managed mobility*, hence, to support the responsibility of HRD, responsible chiefs as well as senior managers in the implementation of the mobility policy (particularly for those staff occupying the P positions) and in response to the capacity of the ILO to deliver on its mandate and the career progression of officials, we believe that incorporating the discussion of mobility undertaking within the context of the performance appraisal is significant and relevant.

119. **We recommended that the ILO should reinforce the integration of discussions regarding mobility into the performance appraisal process of staff in the professional category, to emphasise opportunities and encourage mobility assignments.**

120. **ILO response.** The Office will take steps to reinforce the importance of discussions around professional development within the performance appraisal process, including around opportunities for mobility.

3.4.3 Enriching Supervisory Experience and Improvement of Professional Qualifications of Staff through Mobility Assignments

121. In the same vein, inquiry with Management regarding the mobility of staff occupying professional and higher-level category (Director positions) revealed that the gridlock is more on the geographical mobility of staff from headquarters to field offices. It is apparent from the comments of Management that there are already movements from the field offices to the headquarters but very few are moving the other way, even if it involves grade promotion. The reasons are varied. They include, among other reasons, family circumstances, location condition as well as competency requirements for the new position.

122. However, the mobility policy is clear about its objective that *the Office is increasingly called upon to respond to the diverse needs of its constituents and deliver its mandate more effectively. The increasing scope and complexity of the Office's activities require a more versatile, multi-skilled and experienced workforce capable of carrying out diverse duties in various duty stations. Officials, subject to the terms of their appointment and with due regard to their qualifications, may be required to be functionally and/or geographically mobile during the course of their careers with the ILO.*

123. Hence, staff and officials should seize the opportunity and acquire the benefits of geographical mobility, meaning, the opportunities for *professional development and that it (geographical mobility) can be a motivational experience for staff and officials. The breadth of an official's experience and exposure to different organizational functions and duty stations are important factors for professional development and career growth* which is clearly enshrined in the mobility policy.

124. Moreover, Management explained that transfer in the same grade, promotion or appointment by direct selection by the DG shall be the normal method of filling vacancies which include Chiefs of Branch and Directors of offices in the field, among others. The DG may in such cases, at his discretion and after consulting the Recruitment, Assignment and Mobility Committee mentioned in article 10.6, decide on the use of one or other of the methods of filling vacancies referred to in article 4.2(f).

125. Thus, for the DG to have a concrete basis for his decision and to take advantage of the mobility assignment opportunity consequently responding to the need of implementing mobility policy, especially geographical mobility, internal officials competing for a Director position should have benefited from it. A fitting requisite that geographical mobility had already been availed at this stage of their career in the ILO thereby encouraging compliance with the mobility policy.

126. **We recommended that the ILO should explore the possibility of including mobility as a factor to be considered in the desirable profile outlined in job descriptions relating to Director positions.**

127. **ILO response.** The Office will modify call for expression of interests for Director positions to include that previous field experience will be desirable.

3.5 Gender and diversity

128. The ILO recognized the need for a diverse workforce and this is embodied in the action plan entitled *Composition and structure of the ILO staff: Action plan for improving the diversity of the ILO workforce*. As mentioned in the said document, it will provide a comprehensive and time-bound action plan for improving gender parity and geographical diversity of the ILO staff, and ensuring the necessary breadth of skills and experience of the ILO staff to deliver effectively the mandate of the Organization. The action plan is set in the framework of the ILO's Human Resources Strategy 2018–21 endorsed by the Governing Body at its 331st Session (October–November 2017), considering the ILO Centenary Declaration for the Future of Work and seeking to support the effective discharge of the constitutional mandate of the ILO.

129. We, however, evaluated how the ILO will attain the targets/indicators set to achieve a diverse workforce and their means of achieving these targets/indicators.

3.5.1 Reconciliation of targets for gender parity

130. Based on the Composition and Structure of ILO Staff for the years 2014–18, which provide an overview of the staff composition according to category, place of assignment, type of contract, source of funding and specific information regarding gender, age and geographical diversity as well as staff mobility patterns in line with the outputs provided for in the Human Resources Strategy 2018–21, below are the gender distribution in professional and senior positions during calendar years 2014–18:

Table 1. Gender Parity in the ILO in calendar years 2014–18

Category	2014	2015	2016	2017	2018
Senior staff	36.31%	35.14%	35.41%	36.26%	37.47%
Professional positions	52.53%	53.33%	52.94%	52.73%	55.25%
Overall	44.30%	44.40%	44.90%	45.30%	47.40%

131. The concern whether the Organization met their goal on gender distribution across the Organization depends on the target set based on the policies issued. The Human Resources Strategy paper, which contains the Office's proposals to strengthen and develop an efficient, effective results-based human resource function for an agile and responsive ILO which is aligned with the ILO's Strategic Plan for 2018–21, set gender equality within five per cent parity (45.55 per cent) in professional and senior positions.

132. We noted that the Action Plan for Gender Equality 2018–21, a results-based tool, is said to be fully aligned with the UN System-wide Action Plan on Gender Equality and the Empowerment of Women (UN-SWAP). It reflects the ILO's commitment in joining efforts with those of the UN family and others to support the implementation of the 2030 Sustainable Development Agenda. It provides a target of 50 per cent for ILO professional positions (P1 to P4 on regular budget contracts) held by women for calendar years 2018–21 and 40 per cent and 45 per cent for ILO senior staff (P5 and above on regular budget contracts) held by women for calendar years 2018–19 and 2020–21, respectively.

133. Based on the said documents, we observed that the target for gender equality per the HR Strategy for 2018−21 is not aligned with the ILO Action Plan for Gender Equality 2018–21, thus providing different and unclear targets for the Organization. Further, scrutiny of

the submitted workplan from the HR/TALENT showed that their target gender parity for the professional positions is at 45 per cent while the target for the senior positions is at 40 per cent. Therefore, three vital documents of the Organization which are adopted by HRD in the implementation of gender parity were not aligned.

134. The non-alignment of targets between the HR Strategy, the ILO Action Plan for Gender Parity and the HR/TALENT Workplan provide various trajectories that will give rise to confusions, therefore losing focus, among offices which affect the attainment of the purpose by which these targets were set.

135. **We recommended that the ILO should ensure the collaboration of offices as well as departments for an aligned, reconciled and consistent targets/indicator in the different documents regarding gender and diversity from various department and offices towards the achievement of a gender-sensitive workplace.**

136. **ILO response**. The current ILO Gender Action Plan has targets agreed with the Governing Body for 2018–21. The ILO HR Strategy has targets agreed with the Governing Body for 2018–21. It is anticipated that work on the indicators for the period 2022–25 will be undertaken in 2021 and this recommendation will be taken into account at that time.

3.5.2 Achieving UN-System-wide Action Plan (UN-SWAP) Indicators

137. The ILO Results of UN-SWAP 2.0 Reporting pertaining to various targets per performance indicators provides that, of the 16 relevant Performance Indicators (PIs),two exceed requirements, five meet requirements, seven are approaching requirements, while two are missing requirements. It can be noticed that there were 17 indicators provided by UN SWAP; however, only 16 were considered relevant by the ILO. Hence, we limit our review on the achievement of various indicators which identified HRD as the custodian based on the ILO Action Plan for Gender Equality 2018–21.

138. Anchored from the 16 relevant indicators, we have identified that only six PIs involve HRD, namely: (PI6) Policy; (PI8) Gender-responsive Performance Management; (PI12) Equal Representation of Women; (PI13) Organizational Culture; (PI14) Capacity Assessment; and (PI15) Capacity Development. From these six indicators, 14 targets were set by the ILO for each of the two biennia 2018−19 and 2020−21. Status of progress of these targets (as of September 2019) pertaining to biennium 2018−19 revealed that six targets have been met even before the end of the biennium while other targets have yet to be attained.

139. While HRD is waiting for the end of 2019 to ensure that figures on the results are accurate, some of the indicators will not be met based on some limiting conditions. An instance is in the case of misalignment of compliance with the target such as the *Target 2018–19: campaign materials accessible from the ILO public home page.* Query from HRD disclosed that this target has been fully met because the campaign material is fully accessible by all ILO staff on the ILO intranet page. The responsible staff under HRD, however, is unsure why the public page is mentioned under this indicator, but this type of information is meant to be primarily used by ILO staff, therefore available on the ILO intranet.

140. It should be recalled that these targets are set by the ILO based on the context of each indicators, therefore, practicability and attainability should be put into consideration. Target

alignment and compliance monitoring is vital in delivering the objective of the UNSWAP in mainstreaming gender equality and women's empowerment into all the aspect of work.

141. **We recommended that the ILO should develop realistic and workable targets for each UN SWAP performance indicator, considering limiting factors in the environment in the development of the ILO Gender Action Plan 2022–25.**

142. **ILO response.** The current ILO Gender Action Plan has targets agreed with the Governing Body for 2018–21. The ILO HR Strategy has targets agreed with the Governing Body for 2018–21. It is anticipated that work on the indicators for the period 2022–25 will be undertaken in 2021 and this recommendation will be taken into account at that time.

3.6 Succession planning

143. The JIU Report on Succession Planning (JIU/REP/2016/2) defines succession planning as the process of: (a) pinpointing key needs for intellectual talent and leadership throughout the Organization over time; and (b) preparing people for present and future work responsibilities. Workforce planning, on the other hand, is the strategic alignment of an organization's human capital with its business direction. It is a methodical process of analysing the current workforce, determining future workforce needs by identifying the gap between the present and the future and implementing solutions so that the Organization can accomplish its mission, goals, and objectives.

3.6.1 Improvement of compliance in updating employee profiles

144. Information generated from the employee profile (EP) module plays a vital role in the conduct of succession planning only if this tool can provide relevant and sufficient workforce data. Query with HRD disclosed that statistics on the entire workforce would require 65/70 per cent compliance to be reliable and valid. However, the current percentage of overall compliance is only 46 per cent.

145. It was also mentioned by HRD that they have been putting in place a range of initiatives since 2014 to promote compliance. Among these initiatives to promote compliance are: (a) issuance of IGDS; (b) sending a broadcast, (c) communication through the manager to encourage staff to update employee profile; and (d) access in the dashboard for managers.

146. Based on the submitted documents evidencing the campaign to increase the compliance in the EP, it was noted that there were robust campaigns in the years 2015 and 2016. There is an upturn of compliance during these years which started from a figure of 7 per cent in 2014, 35 and 46 per cent in the years 2015 and 2016, respectively. While, in 2017 there was lesser attention on the EP which caused the decrease of percentage of compliance by 1 per cent and in 2018 the focus went to the ILO jobs and the corresponding compliance was not measured. HRD mentioned that currently, as part of their efforts in promoting the update of the EP, they use career discussions and performance appraisal discussions as channels to encourage staff to update their EP. However, current efforts are not sufficient to further encourage staff to updatee their profile in the EP module.

147. HRD also disclosed that *there really are people that have no interest in updating their EP (for example those close to retirement). This may mean that the ILO does not have useful*

information about the skills and experience of retiring staff which are considered vital. Also, it was acknowledged by HRD that *ILO staff are busy, a common reason why updating the EP is not their priority. While some staff are aware of the importance of the EP, they may not be interested in updating their profile since they do not want to be mobilized geographically.*

148. Mere compliance with the EP module would render the tool effective considering that this is one of reliable tools in managing human resources fundamental to skills mapping which is crucial in succession planning.

149. **We recommended that the ILO should conduct a regular campaign promoting the importance of the employee profile tool to boost compliance, thus optimizing its benefits in facilitating skills mapping which is vital to sound succession planning.**

150. **ILO response.** The Office will continue to promote the importance of the EP tool to boost compliance. The upcoming skills mapping exercise could be an important reinforcing factor, depending on decisions made regarding the data capture and storage of results.

3.6.2 Drafting a succession plan

151. Succession planning finds more relevance as the age structure of manpower in an organization gets older. The inevitable fact of organization age progression naturally entails an exit of people, and for which the organization must be prepared. This is to exact appropriate turn over to the next-in-line who will succeed, take over and continue the unfinished activities of their predecessors. In the ILO, a total of six staff members will reach the mandatory age of separation (MAS) in 2019 and 2020 combined, the number will increase to 23 in 2021, the majority being male. In total, 25 staff members are due to retire in 2022, with 30 in 2023 and 26 in 2024, based on the action plan for improving the diversity of the ILO workforce. Correspondingly, it is indicated in the composition and structure of ILO staff as of 31 December 2018 that of the 855 professional and higher category staff, 209 staff are over 55 years old whereas the global average age is 48.6.

152. The ILO, nonetheless, acknowledged that insufficiency of the workforce will affect the performance of its mandate which is reflected in the Risk Register provided in the Programme and Budget for the biennium 2018–2019. It is indicated in the said Risk Register that the presence of improved and systematic succession planning, the occurrence of the risk would be minimized if not eliminated. Moreover, there are some relevant documents in the Organization that emphasized the relevance of succession planning for the ILO. However, despite the presence of some relevant processes for succession planning, it remained unformalized.

153. Due to the absence of a succession plan, some vacant positions remained long outstanding including some senior positions. Based on our query with the hiring managers, we received a response which states that *the vacancy adds to our challenges to support the constituents in such a huge and complex region and means that some things get postponed*. It was also expounded that *different items in the various DWCPs have been put on hold.*

154. While the other hiring manager mentioned that, *the direct effect of this vacancy is that the workload for the professional positions in the team and my personal workload has increased.* Further, it was disclosed that *development of the strategic projects had to be put on hold or are incurring considerable delay. I observe other challenges in the department linked*

to institutional knowledge and unique expertise. Some of the functions are highly specialized and, because of continued reductions in staff over the years, are now only covered by one single person. If there is no possibility to recruit well ahead of a retirement date (period between six months and one year) so that the new person can be trained up and get familiar with the ILO context and institutional knowledge, we will face difficulties in service delivery and exposing the organization to risk. These statements mirror the risk mentioned in the P&B due to insufficient policy on succession planning.

155. Concerning the foregoing, we asked HRD to provide the list of processes they consider related to succession planning as a preparatory stage. Based on the submitted list, they categorized the succession planning into three phases: Individual level, organizational level, and the office-wide initiatives to assess and match current skills to future business needs. Relative to the *new office-wide initiative to assess and match current skills to future business needs* phase, it was recognized by HRD that this phase still needs to be concretely established and strengthened to serve as a linkage between the other two phases (individual and organizational). It should also be recalled that the identification of these phases is just the forefront of a more formal succession planning that is to be conducted by HRD soon.

156. Considering the above practices of HRD, there are various elements which may be considered at the onset to diminish the delay in establishing a formal succession plan. Given that HRD refers to the Staffing Table with the assistance and frequent monitoring by the HR Partners, it would be a good start to have this as a tool in determining and anticipating future departures of staff and identify competencies required in their key roles/positions that will allow the Organization to plan and ready potential staff for the position.

157. To initialize the process for succession planning, the HR/TALENT Workplan disclosed the spearheading of an initiative to conduct an activity of organizing a workshop which is organized at the branch level to define the notion of workforce/succession planning and to determine how this is operationalized within existing work processes as well as what can be done differently or start if not stopped to strengthen the process and results. This activity was placed to meet the target of defining the notion of workforce/succession planning based on the existing work processes and to identify areas for improvements. The branch chief stated that the workshop team has been established and they hope to have the workshop conducted the soonest. Further, due to the recognition of the importance of identifying skills set as a channel to help establish the linkage between the two phases, a skills mapping exercise will be conducted in 2020.

158. Drafting a succession plan would help the Organization evaluate the processes of enhancing the skills and knowledge of their staff to be in a position that is considered vital in the Organization. The succession plan would also strengthen the Organization's mitigating factors on the risk identified relating to inadequacy of policies and practices with respect to succession planning.

159. **We recommended that the ILO should consider drafting a succession plan as one of the output of the upcoming workshop of the HR/TALENT to have a concrete strategy and ensure preparedness of the Organization to avoid the risk of potential loss of leadership, continuity, institutional knowledge and expertise because of departure.**

160. **ILO response.** Recruitment and selection for key positions in the ILO follows a specific set of procedures. As such it is not possible to implement a single formal succession plan. However, one of the outputs of the upcoming HR/TALENT workshop will be a more formalized approach to succession planning to ensure that risks related to loss of skills, expertise and institutional knowledge are mitigated and to minimize vacancies in essential leadership positions. Opportunities to support this with functionality newly available in ILO People are being investigated.

3.7 Administration of justice

161. A harmonious working environment is essential to be productive and agile. Hence, systems, rules, and procedures are formulated to set a common standard for behavior and actions which ensure that the work contribute to the achievement of desired results. Unavoidably, disputes arise between management and staff in any work environment. Consequences of disputes that are left unresolved can be devastating including diminishing productivity, deterioration of interpersonal relationship thus strategic objectives are not achieved and delivered. In this regard, the ILO will launch an Organization-wide campaign that will promote a respectful working environment aimed at preventing discrimination and harassment which will contribute to the reduction of interpersonal conflict across the Organization and support the more effective use of informal means of resolution.

3.7.1 Systematic approach on conflict prevention and resolution

162. An effective conflict prevention and resolution necessitates a system that considers the people, the processes, the rules, the physical environment, the control and grievance mechanisms as well as less visible attributes in the organizational culture such as attitudes, beliefs and values. This enables all stakeholders to participate in the prevention, management and resolution of conflict in a comprehensive, systemic manner. This approach also suggests that conflict management should build on existing structures, rather than creating new ones.

163. Chapter XIII of the April 2019 Staff Regulation of the ILO stipulates the policies, mechanics and procedures on conflict prevention and resolution. The regulation provides that an official who considers that he has been treated in a manner incompatible with his terms and conditions of employment, including the right to work in a place that is free of harassment may avail of formal or informal conflict resolution.

164. We noted that under the existing structure and accountability framework of the ILO there are offices and officials of the ILO that have roles and responsibilities for conflict prevention and resolution that is, Human Resources Development, Responsible Chief, Office of the Mediator, Staff Welfare Office, Staff Union, Ethics Office, Joint Advisory Appeals Board (JAAB) and the ILO Administrative Tribunal (ILOAT). All are first level entry of grievance except the JAAB and the ILOAT, which are appeal bodies. Their respective roles and responsibilities appear to be complementary and sometimes overlapping.

165. We further noted that each actor operates independently from each other and their respective duties do not include a clearly defined mandate for the coordination of a conflict management system. As a result, the actors involved in conflict prevention and resolution tend to work in parallel rather than together.

166. The Management explained that having multi-entry points of conflict resolution is efficient since ILO staff may not be comfortable talking grievance to a specific person and bared the existence of a regular contact with the Ethics, Mediation and Social Welfare Office in terms of conflict resolution. The Officers of these offices as well as the Staff Union, however, narrated that there is a gap on strengthening and systematizing conflict management.

167. A systemic approach is possible through investing in conflict management consultations and regular meetings by the actors of conflict prevention and resolution. This will in turn aid in developing collaborative solutions to conflict and other workplace problems for both management and staff. It is underlined that in the 2018 Annual Report of the Office of the Mediator, it stated that *conflict is everybody's responsibility. A crossover and multidisciplinary approach to trends, interventions and preventive measures and strategies would be more efficient and, therefore, more sustainable.*

168. **We recommended that the ILO should consider a systematic approach to conflict resolution and prevention to ensure that the various actors and bodies involved can coordinate their respective efforts providing a more cohesive framework to address conflict whilst always respective of the confidentiality of each of the individual cases.**

169. **ILO response.** Given the confidentiality aspects and independence of the different actors involved, the Office will organize, in the course of 2020, a consultation session among all actors concerned, with a view to clarifying roles and responsibilities and exchanging views on possible ways to seek a more systematic approach in accordance with these audit recommendations.

3.7.2 Fragmented data on conflicts and/or grievances

170. A complete and integrated data to better understand conflict and/or grievances in the Organization assist in identifying systemic issues with a view to promoting an enabling environment for preventing and reducing workplace conflict through concerted effort by the Management. Similarly, mapping trends and identifying the root causes of systemic issues are critical for appropriate prioritization of cases.

171. Inquiry from Management revealed that certain data provide an estimate regarding the status of conflicts and/or grievances in the ILO. These are provided in the annual report by the Mediator's office, the activity report by the JAAB, and the rendered decisions of the ILOAT. Likewise, HRD has statistics and status of the formal grievances received and conditions of employment and harassment, but they clarified that the statistics are not publicly available and published in the intranet, unlike the JAAB activity report and the annual report of the mediator. However, we noted that Management do not prepare a consolidated figure for conflicts and/or grievances. The data on conflicts and/or grievances are fragmented. There are no consolidated figures that were handled by the different actors or agents of conflict prevention and resolution.

172. Management explained that there are no consolidated statistics on the number of grievances reported and acted. On informal conflict resolution, there are some confidentiality-related aspects regarding some parts of the informal conflict resolution process which are not compatible with a centralized/consolidated reporting mechanism. Management added that HRD does not keep annual statistics on informal conflict resolution as this would require defining more specifically which cases need to be reported.

173. Considering that there are different actors in conflict prevention and resolution, interaction and exchange of views among all stakeholders to bring about a unified approach to reporting information and figures would be useful and beneficial. This has the potential to generate policy or regulation change that reduces conflict in the Organization, which will in turn improve the overall performance of staff and Management.

174. **We recommended that the ILO should take steps to develop a consistent approach with respect to data collection and reporting of grievances and grievance outcomes to facilitate better monitoring and evaluation of efforts to reduce conflict within the Organization.**

175. **ILO response.** The implementation of this recommendation depends on the outcome of the consultation process mentioned in paragraph 169 above. The Office will identify ways to enhance the reporting system to increase the visibility of the data and encourage further collaboration in the context of the respective annual reporting cycles of different actors.

3.7.3 Updated and Enhanced Guide to the ILO Conflict Prevention and Resolution Procedures

176. The ILO and the Staff Union entered into a collective agreement in 2004 to *establish fair, transparent, efficient and effective procedures for the prevention and resolution of workplace conflicts and grievances. These procedures are based on recognition of, and respect for, the rights and responsibilities of all officials working in a multicultural environment.* A guide was also adopted in January 2008 to provide a user-friendly overview of both the informal and formal conflict prevention and resolution procedures in the ILO.

177. Several major changes were introduced to the ILO including the implementation of reforms by the new management. A new policy on harassment in January 2015, was incorporated into Chapter XIII of the Staff Regulations. To reiterate, based on the 2018–21 HR Strategy, the ILO aims to launch an Organization-wide campaign that will promote a respectful working environment aimed at preventing discrimination and harassment which will contribute to a reduction of interpersonal conflict across the Office and support the more effective use of informal means of resolution.

178. HRD and the Mediator’s Office pointed out that the 2008 guide has not been updated. HRD commented that conflict resolution and procedures are provided in the April 2019 Staff Regulations. It is highlighted that for the Office to effectively respond to the demands of the new developments, it should ensure that guides are in line with the current strategic objective, that strategy and procedures to encourage positive behaviours are exhibited in the workplace, that trust and a harmonious work environment are fostered, and that conflicts are minimized if not resolved in a timely manner.

179. **We recommended that the ILO should facilitate the updating and enhancement of the user’s guide to ILO conflict prevention and resolution procedures as part of efforts to promote a respectful work environment free from violence and harassment and to help ensure a consistent approach to conflict resolution across the Organization.**

180. **ILO response.** The update and enhancement of the user's guide to ILO conflict prevention and resolution procedures has been planned for completion in 2020.

3.8 Ethics and standard of conduct

181. In entrenching ethical values into organizational culture or work environment, the roles of the Organization's ethics and human resource functions merges. It is vital therefore, that these functions should work collectively in an effective manner. HRD mentioned that, *the interaction and division of roles and responsibilities regarding ethics is shared between the Ethics Officer, HRD and managers along the modalities indicated in the IGDS.*

182. Handling a wide array of functions in Organization's human relations, HRD is responsible for key systems and processes which can reinforce effective conveyance of messages in the Organization about ethics and standards of conduct. By collaborating with the Ethics Office, HRD can help to integrate ethics into HRD processes such as, but not limited to, recruitment, selection, appraisal, retention, motivation, reward, diversity, coaching and training. It was mentioned by HRD that, *the perception of the ethics environment is monitored through surveys undertaken by the Ethics Officer as well as other employee engagement surveys such as the OHI.*

3.8.1 Improvement of ethical awareness in the ILO

183. Based on the Report of the Ethics Officer 2018, it can be inferred that the ILO staff are not aware of the services of the Ethics Office, and thus that efforts of the Ethics Officer should have been devoted more on his ethics function. This situation was already considered as one of the risks in Strategy and Plan of the Ethics Officer in 2016−17 which provides that the Ethics Office is a part time function and the current Ethics Officer is carrying out his responsibilities in parallel to serving as a team leader and project manager in the Gender Equality and Diversity Branch (GED). The Ethics Officer is currently devoting approximately 25 per cent of his time in the performance of his function as Ethics Officer based on budget allocation.

184. More so, it was noted that the ILO public webpage and intranet site does not provide for a quick access to the Ethics Office page. Should there be enough attention on the visibility on such pages, this could have helped the Office in disseminating information promoting standards of conduct Organization-wide. It was also mentioned that the Office has an e-learning module in its ILO webpage; however, it was already outdated due to the updating of various ethics policies as mentioned by the Ethics Officer. We noted upon verification that the e-learning module cannot be viewed due to the recent moving of the ethics page to Web Content Management System (WCMS). The time allotted by the Ethics Officer to the Office could have at least been reinforced by having a more visible webpage or intranet page for a far-reaching visibility that even those staff remote from headquarters can be informed on the initiatives of the Ethics Office.

185. To respond to the need of ethical awareness, the Ethics Office must prepare the necessary actions to properly address this issue. However, it was disclosed that the Action Plan for 2020−21 is still under way. It was also mentioned by the Ethics Officer that the strategy and action plan for 2020−21 will focus on outreach and awareness raising, including updating the Ethics webpage, face-to face briefings, contributions to ILO staff training on ethics related subjects, amongst others. The strategy and action plan will be available in January 2020.

186. **We recommended that the ILO should enhance the Ethics Office's visibility, with the current constraints in Office time allocation, in the ILO intranet and webpage by updating, uploading and enhancing the visibility of Ethics intranet page including its Ethics e-learning module and for easy access of potential whistle-blowers to communicate relevant information.**

187. **ILO response**. Updating the ILO's Ethics website and increasing its visibility is included in the Ethics Officer's work plan for 2020.

3.8.2 Enhancement of whistle-blower policy

188. There are various best practices for whistle-blower policies identified by the JIU in 2018, in their report on the *Review of Whistle-Blower Policies and Practices in United Nations Systems Organization*. The ILO is in the process of responding to the recommended best practice: *providing for an external and independent appeals process for reporting persons when they have reasonable grounds for believing that the protection provided was inadequate or when a prima facie case was not determined*. Moreover, while the newly issued IGDS becomes the single document for whistle-blower policy responding to the best practice that the *policy is contained in a single document and easy to locate in a public webpage*, it is reiterated and best that the ethics intranet page be more visible in which the IGDS should also be posted.

189. Further, the importance of employing the best practice was emphasized in the said JIU report which states that, *reporting persons need support and guidance in reporting misconduct/wrongdoing and/or retaliation due to the associated risk to their careers, personal safety and/or social and personal well-being. Such support can include, among others, helplines, legal assistance, counselling services, external support services and independent advice, and it is distinct from the protection measures detailed under the preceding criterion. There are three indicators under this criterion, which are used to assess the engagement of senior management in assistance or protection, informal guidance and support options and the availability of external and independent appeals processes when a prima facie case is not determined.*

190. While the action of the Ethics Office is commendable as to its prompt response on some of the recommendations of the JIU relating to the whistle-blower policy, the Organization needs to facilitate the incorporation of some best practice indicator to further strengthen the whistle-blower protection policy, particularly, the availability of external and independent appeals processes.

191. **We recommended that the ILO should facilitate the inclusion of the provision for external and independent appeals process for reporting persons in case of inadequate protection or when a prima facie case was not determined, in the whistle-blower policy.**

192. **ILO response.** The Ethics Officer's work plan for 2020 includes the preparation of a note outlining options for establishing a system allowing persons considering to have been subject to retaliation to request a second review by an external party in cases in which the Ethics Officer's preliminary review has concluded that there was no prima facie case.

3.9 Staff survey

193. Conducting staff surveys to verify the involvement and willingness of staff to perform their jobs and contribute to the success of their organization and improve their well-being is not a new idea; however, it has become more popular than ever. The reason being, recently, managers are keener in knowing what can engage or disengage staff.

194. The foremost aim of conducting a staff survey is to find out the factors that drive staff to perform their best or otherwise. It is important to establish harmonization between what top management offers and what staff expect or vice versa. Similarly, it has been said in a meeting with Management − to benchmark and compare with other UN entities' operations.

3.9.1 Capitalize on the conduct and results of staff survey

195. Following an inquiry with Management, it was said that conducting staff surveys regularly can design if not redesign established policies and implement key changes to increase the efficiency, output, involvement, dedication, productivity and improve well-being of staff. Not only this, surveys also assist in retaining the best talent within the organization. When the organization focuses on the problem, it comes up with effective solutions which significantly increase the number of engaged staff, resulting in a considerable increase in their productivity and the organization's achievement of objectives.

196. However, dialogue and further inquiry with Management as well as review of available documents revealed that in the area of harassment, the ILO's survey report has provided a baseline against which to measure change, particularly in relation to prevalence rates. A related strategy was drafted, and the UN suggested that a comprehensive sexual harassment survey be re-administered by the ILO in two-year intervals, to measure the impact and effectiveness of the policy/interventions overall and on key groups.

197. While in mental health and well-being, which gains more recognition with the issuance of the Healthy Workforce for a Better World (United Nations System Mental Health and Well-Being Strategy). The ILO, for their part, have yet to conduct a corresponding survey that will gather information which is vital in delivering the strategy to the Organization. Management further opine that the conduct of the survey on mental health and well-being was recommended by the Staff Welfare Office but has not been approved thus far.

198. Lastly, the survey on work−life balance (in 2008) a decade ago has come into fruition with a teleworking policy in year 2010. While in 2012, a compensatory time off was introduced for staff travelling on weekends as part of the negotiated collective agreement on travel policy. And, an internal survey on ILO field and headquarters staff attitudes towards LGBT colleagues was conducted. It also resulted in 2013 negotiations on a collective agreement on maternity protection in the ILO. Although significant results were achieved, a follow-up survey on this area was not foreseen to measure impact or improvements.

199. Staff surveys establish a comprehensive two-way communication process overcoming barriers. It definitely should lead the Organization to obtain staff feedback, understand their requirements, work on designing new policies and practices and commit to implement or introduce improvements after initial or pilot implementation. Otherwise, there is no meaning of

such surveys, and detrimental to staff who actually look to the survey as a way of communicating their views and opinions to their immediate managers and top management.

200. Hence, a drastic scale back of any survey initiative because of the time and effort it takes to create a useful, valuable follow-up or regular survey process is undesirable. Surveys do not move the needle unless top management acts on it, which sends a negative impression regarding concerns for feedback. After long period of time, significant business changes could occur such as turnover, change in business direction, change in leadership, introduction of new programmes, cancellation of existing programmes, among others, that will essentially mean starting over. On the other hand, very frequent conduct of survey becomes a task rather than an honest feedback session.

201. Therefore, when it comes to staff surveys, timing and balance are critical. Like any other business tool, too little or too much of any given mechanism − vis-a-vis survey − can cause outcomes not intended and anticipated. Granted, the balance is relative, but the key is finding that perfect balance − the combination that puts staff at their most productive selves, experiences being valued and feels rewarded for the efforts. A regular survey with action items, follow-up, coaching and leadership involvement is key. Regular pulse surveys can be helpful but are not always necessary. A strong staff survey programme should be a built-in function to any organization, one that is repeated and acted upon on a regular interval, aligning with UN practice which is a two-year cycle. Similarly, underscoring the importance of measuring the impact and effectiveness of the policy/interventions because of the survey.

202. **We recommended that the ILO should facilitate the implementation of the mental health and well-being survey and adhere to UN suggestion in its corresponding report on sexual harassment that survey be re-administered in two-year intervals.**

203. **ILO response.** Dissemination of various educational materials and awareness-raising activities on mental health and well-being for ILO staff are part of the Staff Welfare Office’s work plan for 2020. The “Stress in the Workplace” working group of the Committee on Occupational Safety and Health (COSH) is working on identifying the most appropriate survey tool and methodology to be recommended to the DG upon COSH’s endorsement. Successful implementation of an office-wide survey on mental health and well-being of staff will be supported by senior management and resources will be made available for its design, rollout and follow-up activities.

4. Control environment in regional and country offices

204. For the financial year 2019, we audited the RO-LAC, DWT/CO-Cairo, DWT/CO-Costa Rica and DWT/CO-Lima. Our audits were carried out primarily to determine the sufficiency of delivery of front-line 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 an audit management letter.

205. The delivery of the front-line controls, also known as management controls, reflects the effectiveness level of the control environment within the offices in relation to managing Decent Work Country Programmes (), development cooperation projects, grants, procurement, implementing agreements, external collaboration contracts, assets, cash and travel. The offices’

representations on the state of their internal controls is reflected in an annual representation letter that comes in the form of a self-assessment internal control questionnaire. Thus, pivotal to the representations is the ability of the regional and country offices to ensure that what was reported was aligned to their internal control operating realities.

206. Among the control gaps noted include among others:

- **a.** absence and/or non-formulation of DWCP in some countries;
- **b.** Country Programme Review for developed and/or implemented DWCP not consistently undertaken by the respective CPR Task Force;
- **c.** project expenditures with no budget provisions resulting in negative balance;
- **d.** projects depicting low delivery rate;
- **e.** minimal physical accomplishment of the projects;
- **f.** outlined project activities that remain to be undertaken despite project end term;
- **g.** grants that do not comply with reporting obligations;
- **h.** assets that were not assigned to specific accountable officer;
- **i.** lost and damaged properties not yet recorded;
- **j.** disposal of assets not properly documented;
- **k.** petty cash fund (PCF) not maintained on an imprest basis;
- **l.** PCF expenditures for Calendar Year 2018 which were paid out of current year (2019) petty cash fund;
- **m.** accruals for calendar year 2018 which were still outstanding as of March 2020;
- **n.** negative balance of implementation agreement account due to error in accrual;
- **o.** Required Purchase Requisition (Tool 4-8) which was not prepared;
- **p.** Contract Close-Out Checklist not completed as part of contract administration;
- **q.** travel claims submitted beyond the eight-day rule as prescribed in IGDS No. 437 which ranges from 21 to as high as 160 days;
- **r.** risk register prepared not on prescribed template; and
- **s.** the event-consequence-cause-assessment-remedial action sequence in formulating risk registers was not observed.

207. Based on the results of our audits of critical operational processes in the regional and country offices which are communicated in the management letters addressed to the heads of offices concerned, we deemed it vital to highlight the importance of controlling as a management function. Specifically, the controls that we have tested as part of our audits were all management controls or controls that occupy the first line of defence against the offices' business risks. The efficacy of treating these risks at source relies mainly on the design and operating effectiveness of the controls that were in place. While we have seen controls that were compliant in several processes undertaken by the offices, we considered it critical for these offices to strengthen compliance further and attain the objectives for which these controls were designed and installed. Essentially, what we have noted related to the need for the ILO to make its oversight or monitoring controls work more effectively. In some observed instances, we noted a need to reinforce supervisory controls. Making the controls work more effectively also requires sustained assessment at all levels of the ILO management, not just the regional and country offices.

208. **We recommended that the ILO should implement strategic solutions to strengthen their supervisory and monitoring controls over critical processes and decisions to ensure operational efficiency and effectiveness; and better support the certification made by the field office directors of the state of their control environment.**

209. **ILO response.** The Office notes that most urgent office-specific recommendations made in specific country audits have been addressed immediately while the overall supervisory and monitoring controls are being strengthened at a more strategic level. Coordinated support efforts are being made through regular communications and knowledge-sharing of the global finance team and the regional administrative workshops. The rollout of IRIS has been completed successfully at the end of 2019, which significantly enhances oversight and accountability capacities. The recent deployment of IRIS-based dashboards for managers and Financial Control Officers (FCOs) will ensure data transparency and timeliness in financial reporting and operational monitoring and controls.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS FROM PREVIOUS YEARS

210. We validated the implementation of external audit recommendations contained in prior years' audit reports. We noted that of the 25 outstanding recommendations, 14 (56 per cent) had been fully implemented, one (4 per cent) had been implemented on an ongoing basis, six (or 24 per cent) had been partially implemented, and four (or 16 per cent) are still in the process of implementation. Annex A presents the detailed analysis of the implementation of the recommendations. We recommended that the ILO should adopt an action plan and strategy to implement the audit recommendations to further improve operational efficiency.

D. DISCLOSURES BY MANAGEMENT

211. **Write-off.** Management reported that, in accordance with article 33 of the Financial Regulations, a total of US$86,213 in 2019 (US$247,124 in 2018) were approved for write-off by the Treasurer. The write-off consists of: United Nations Development Programme (UNDP) clearing, unrecoverable VAT, duplication of payment to supplier, reversal of 2015 write-off, replenishment account difference – US$23,531; Budapest cases of fraud – US$26,756; and old outstanding advances unrecoverable – US$35,926. We noted that the appropriate procedures required under the Financial Regulations for the write-off were observed.

212. **Ex-gratia payment.** In accordance with article 32 of the Financial Regulations, no extra-gratia payments were made in 2019 (US$0 in 2018).

213. **Cases of fraud and presumptive fraud.** We noted a 6 per cent decrease in reported cases of fraud or presumptive fraud in 2019 – 31 cases (2018 – 33 cases). The cases involved were: (a) procurement fraud – five cases; (b) project implementation fraud, including those committed by implementing partners – five cases; (c) travel/DSA claims– three cases; (d) SHIF fraud– four cases; (e) recruitment/moving of staff fraud – three cases; (f) theft/misappropriation of assets – five cases; (g) wire fraud – two cases; (h) child allowance entitlement fraud – two cases; and (i) outside activity fraud – two cases. More than half of these cases, 16 are still for investigation by the Office of Internal Audit and Oversight (IAO), while 14 cases were closed, and one will be investigated locally. It was further noted that 30 of these cases involved the field offices and one of which involved headquarters in Geneva.

E. ACKNOWLEDGEMENT

214. We wish to express our appreciation for the cooperation and assistance extended to our staff during our audit by the DG, the Deputy Director-General, Regional Directors, Headquarters Directors, the Treasurer and Financial Comptroller, Country Directors, and members of their staff.

215. 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 FROM PREVIOUS YEARS (ILC.106/FIN, ILC.107/FIN and ILC.108/FIN)

	Recommendation	External Auditor's validation
	ILC.108/FIN – 2018	
1	**Staff Health Insurance Fund (SHIF):** We recommended that the ILO SHIF clearly define in the SOP the fraud indicators or red flags as well as the predetermined criteria in assessing claims which may be initially classified under any of the fraud schemes in order to identify, on a preliminary basis, potential cases of fraudulent claims to be submitted for further investigation by the IAO. Inclusion in the SOP of the potential fraud could result in cost efficiency in terms of scaled down resources needed for investigation and more effective management of cases of fraud and presumptive fraud, with due consideration given to the rights of the insured members pending the results of a formal investigation by the IAO. (Para. 23)	**In progress** The SOP is being reviewed. SHIF Secretariat contacted other mutual UN health insurance operating with HIIS system to share information in this respect and establish common criteria and indicators for fraud detection. This information was used to review and enhance the existing SOP.
2	**Investigation of fraud cases:** We recommend that the ILO Management place emphasis and devise a strategy on the investigation of pending fraud cases to deter the occurrence of fraud, to send a message throughout the Organization that fraud will not be tolerated, and to further strengthen fraud controls. (Para. 36)	**Fully implemented** The Office has devised a strategy on the investigation of pending fraud cases, which included a risk-based assessment of referrals by timely addressing those assessed to be of high priority and adopting a "cluster" approach by region to address those ranked medium to low priority, which has proven to be an effective approach in 2019. Moreover, the Programme and Budget for 2020–-21 not only maintained increases in resources of previous biennia, but also provided an increase of Regular Budget resources for the Investigation Unit to fund a P3 Investigator position and resources for a P4 Senior Investigator position. These additional resources will further enhance IAO's capacity in conducting its investigation activities.

<table>
<tr><th></th><th>Recommendation</th><th>External Auditor’s validation</th></tr>
<tr><td>3</td><td>Resource mobilization − Resource mobilization institutional framework and guidelines:

We recommended that the ILO deepen, expand and diversify partnerships and financing with other UN entities, IFIs and the private sector through the development of a structured corporate resource mobilization framework and guidelines for consistent, systematic implementation and coordination of resource mobilization activities organization wide. (Para. 42)</td><td>Fully implemented

In terms of IFIs, the Office has intensified its outreach with the World Bank and the African Development Bank. The Office further participated strongly in the UN’s SDG Fund and other joint UN funding mechanisms. In response to the high-level evaluation of Public-Private Partnerships (PPPs), the Office provided guidance for further work to increase the portfolio.

Overall, the Office’s resource mobilization strategy has been incorporated in the Development Cooperation Strategy for 2020–25, which will be discussed by the Governing Body in November 2020. Resource mobilization guidelines have been finalized and published on ILOs intranet.</td></tr>
<tr><td>4</td><td>Resource mobilization − Resource mobilization organizational structure and capacity-building:

We recommended that the ILO optimize the participation of field offices in resource mobilization by clarifying the specific roles and responsibilities of the offices including their structure for more efficient coordination, and to establish clear accountability lines. (Para. 51a)</td><td rowspan="3">Partially implemented

The IGDS on Project Cycle Management has been revised and will be published in 2020 to further clarify roles and responsibilities related to resource mobilization and more specific instruments will be identified for Regional Offices in order to support more efficient coordination of resource mobilization.

Starting from the 2020 performance appraisal cycle, standardized outputs on resource mobilization for staff positions frequently involved in resource mobilization have been completed and staff members involved in resource mobilization will be encouraged to add these outputs to their performance appraisal forms to foster alignment with organizational priorities and assess results achieved.

Furthermore, building on the current courses related to United Nations reform already available in the Development Cooperation Learning Journeys, more</td></tr>
<tr><td>5</td><td>Resource mobilization − Resource mobilization organizational structure and capacity-building:

We recommended that the ILO ensure inclusion in the performance appraisal of staff involved in resource mobilization of the corresponding agreed outputs and measure of performance to assess results achieved and contribution made to the attainment of organizational outcomes on resource mobilization. (Para. 51b)</td></tr>
<tr><td>6</td><td>Resource mobilization − Resource mobilization organizational structure and capacity-building:</td></tr>
</table>

	Recommendation	External Auditor's validation
	We recommended that the ILO refine the corporate staff development strategy on resource mobilization by aligning it to the context of United Nations Reform and incorporating it in the 2020–25 Development Cooperation Strategy to ensure a unified approach towards efficient and effective resource mobilization capacity-building. (Para. 51c)	strategic elements on resource mobilization and partnerships within the context of the United Nations reform will be included in the Development Cooperation Strategy 2020–25, in keeping with the overall staff development programmes. The Development Cooperation Strategy for 2020–25 is planned for discussion at the Governing Body session in November 2020.
7	**Programme implementation reporting and monitoring – Outcome-based workplan progress and status report:** We recommended that the ILO enhance further the mechanism on results reporting by clarifying its planned results and measurements that will guarantee better accounting and reporting of interim results particularly from field offices, for the purposes of better accountability and more meaningful results reporting. (Para. 59)	**Fully implemented** The Office has enhanced the presentation of information since the second semi-annual OBW progress reports in the 2018/19 biennium.
8	**Programme implementation reporting and monitoring – Country programme outcomes and P&B outcome indicator linkages:** We recommended that the ILO enhance its results linking process for the country programme outcome (CPOs) to the 2018−19 P&B outcome indicators and improve its internal coordination during the review exercise to improve the integrity of results information. (Para. 64)	**Fully implemented** Following the OBW review undertaken in April 2019, the Office has issued specific guidance on linking CPO results to the 2018−19 P&B outcome indicators in June 2019 and has enhanced the Implementation Reporting Module in IRIS/SM to capture information on sources of information for the country results reported through the system.
9	**Control environment in regional and country offices:** We recommended that the ILO assess the level of operational risks of its field offices and implement strategic solutions to strengthen their supervisory and monitoring controls over critical processes and decisions to ensure operational efficiency and effectiveness; and better support the certification made by the field	**Implemented on an ongoing basis** The Office continues to take note of the observations made during the field audit work. Most urgent office-specific recommendations continue to be addressed immediately while the overall supervisory and monitoring controls are being strengthened at a more strategic level.

	Recommendation	External Auditor's validation
	office directors of the state of their control environment. (Para. 69)	The successful completion of IRIS rollout at the end of 2019 has significantly enhanced the oversight and accountability capacities at different levels. IRIS-based dashboards for managers and financial control officers (FCOs) have recently been deployed, which will ensure data transparency and timeliness in financial reporting and operational monitoring and oversight. The ILO Finance Manual has been and will continue to be adapted as necessary, providing up-to-date instructions on all aspects of financial operations, in particular those of external offices. Within the hierarchical structure of the annual Internal Letter of Representation reporting exercise, ILO project managers, country office directors, regional directors have completed their 2019 self-assessment in key areas of internal control, which served as both a pedagogical and feedback mechanism for further strengthening operational supervisory and monitoring controls. Coordinated support efforts are being made through regular communications and knowledge sharing of the global finance team and the regional administrative workshops.
	ILC.107/FIN – 2017	
10	**Programme results monitoring – Evidence-based monitoring** 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 unit workplan (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	**In progress** The Office is developing a corporate monitoring system to support the implementation of the Programme of Work 2020–21, taking into account specific recommendations made by the External Auditor. As part of the process, the Office has developed detailed technical notes for the output indicators of the Programme and Budget for 2020–21 with a view to ensuring consistency in the measurement approach and common quality standards within and across outcomes, and supporting better planning, monitoring and reporting on results.

	Recommendation	External Auditor's validation
	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. (Para. 30)	The system is targeted for deployment by September 2020.
1	**Programme results reporting** 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. (Para. 34)	**Fully implemented** PROGRAM has issued specific guidance on this subject in June 2019 and has enhanced the Implementation Reporting Module in IRIS/SM to capture information on sources of information for the country results reported through the system.
12	**Travel** 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. (Para. 71)	**Fully implemented** In 2019, the Office undertook an overall review on the common causes of such deviations and its findings revealed scenarios such as unanticipated support requests from constituents, on-hold security clearances in specific countries, visa issues and back-to-back missions, etc. Notwithstanding the exceptional circumstances causing deviations from the requirements, the Office has identified mitigating strategies to improve compliance, including closing monitoring and further training. In addition, the Office has developed and will deploy an application that will strengthen the approval and monitoring procedures for all mission travel and provide further training to staff to reinforce the rules.
	ILC.106/FIN – 2016	
13	**Accountability framework:** We recommended, and ILO agreed to improve the accountability framework to include the accountability mechanism and	**In progress** IGDS 137 "ILO accountability framework" and IGDS 195 "The ILO accountability framework: key standards

	Recommendation	External Auditor's validation
	tools to more effectively facilitate the documentation and monitoring of accountability performance and achieve better transparency (Para. 26)	and mechanisms" will be reviewed, taking into consideration the progress made with the ERM, ICF and SIC, and with particular attention given to the inclusion of specific tools used to measure, report and assess performance, in addition to the current presentation of accountability mechanisms based on definitions of offices/functions. The updated IGDS documents are targeted for publication in 2020, taking into consideration, inter alia, compatibility with the new results framework, recent policy developments in ethics, the full implementation of IRIS worldwide and the tools and dashboards made available by it.
14	**Procurement feedback and grievances:** We recommended, and ILO agreed to: 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 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)	**Partially implemented** Part (a) of the recommendation has been fully implemented with procedures for vendor debriefing and bid protests having been published. On part (b) of the recommendation, the ILO, together with other Geneva-based UN sister organizations (WHO, UNAIDS, ITU, IOM and WMO), has agreed to the establishment of a Joint Sanctions Board to deal with cases of vendors suspected of having undertaken proscribed practices. The Joint Sanctions Board will operate in compliance with the procedures contained in the Model Policy Framework (MPF) approved by the HLCM and the Chief Executives Board in 2011. The Office will review the practical modalities of the Board and establish the internal procedures for its operationalization.
15	**Asset Accountability Policy and Procedures:** 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	**Partially implemented** A revised version of the internal procedure on the management of furniture and equipment has been drafted, circulated for comments, and is planned for publication in 2020. The new version includes clear criteria defining major circumstances of asset loss, establishes clear guidelines for documentation in case of asset loss and defines the levels of administrative and

	Recommendation	External Auditor's validation
	Organization`s assets to enhance the quality of controlling of assets and related accountabilities (Para. 38)	fiscal responsibility for each type of circumstance defined as the cause of asset loss.
16	**Ethics:** We recommended, and ILO agreed to: a. update the Whistle-blower Policy to include the two-step process of investigation, the amount of evidence needed to constitute disciplinary actions and the corresponding sanctions for each infraction to align more closely with the requirement of due process; 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; 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 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)	**Partially implemented** The anti-fraud policy was revised in October 2017 in order to address specific audit recommendations as well as other matters requiring updates. The Whistle-blower Policy was revised in November 2019. In the revised policy entitled "Reporting misconduct and protection from retaliation" (IGDS 551), it is specified that any request for protection from retaliation will be subject to a preliminary review by the Ethics Officer and an investigation by the Office of Internal Audit and Oversight (IAO) in case of a prima facie determination of retaliation. The Office is currently reviewing the Principles of Conduct for Staff and the Conflicts of Interest Policy.
17	**RBM – Assessment of SOs effecting the changes influenced by ILO's interventions**: We recommended that the ILO: a. initiate assessment of the most recent achievements in the Strategic Objectives (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	**Fully implemented** The Programme of Work and Results Framework for 2020–21 approved by the Governing Body on 4 November 2019 includes a theory of change based on the ILO Centenary Declaration on the Future of Work, with indicators and targets at the impact, outcome and output levels. The ILO strategic objectives are integral to the longer-term impact statement.

	Recommendation	External Auditor's validation
	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)	The measurement framework includes impact indicators for the four strategic objectives altogether through SDG indicators that track the long-term impact of the ILO action. In addition, data collected at the level of the outcome indicators will allow analysing and reporting on progress in respect to each strategic objective as follows: • outcome 1 indicators − strategic objective on social dialogue and tripartism; • outcome 3, 4 and 5 indicators – strategic objective on employment; • outcomes 2, 6 and 7 indicators – strategic objective on fundamental principles and rights at work: • outcome 8 indicators – strategic objective on social protection.
18	**RBM - Alignment of outcomes to SOs:** We recommended that the ILO: 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 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)	**Fully implemented** Same explanation in No. 17 above.
19	**RBM − Linkage of outputs to outcomes and accountability for delivery:** We recommended that the ILO: 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	**Fully implemented** The Programme of Work for 2020–21 has been established, based on a theory of change linking outputs, outcomes and impact. The next steps in the process are ongoing, including the establishment of outcome coordinating teams to steer and oversee the delivery of the programme through collaborative and interdisciplinary working methods, the implementation of a

	Recommendation	External Auditor’s validation
	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)	strengthened monitoring and reporting system, and further improvements in the strategic budgeting methodology.
20	**RBM – Measurement of SOs and outputs:** We recommended and ILO agreed that: 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; 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; c. ensure that the outputs reflect the Office’s products and services and not the results to which they contribute to, and that these 0utputs and its Indicators are reflected consistently in the workplans across the Organization for uniform measurement of results; and d. develop guidance on the measurement of SOs and outputs based on agreements reached. (Para. 79)	**Fully implemented** Same explanation in No. 17 above.
21	**RBM - Harmonization of RBM policies, tools and application in the P&B, DWCPs and DC projects:** 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	**Fully implemented** Based on the work of the RBM task force, the Office has ensured proper aggregation of results at the level of the policy outcomes. This information is included in the Programme Implementation Report (PIR) 2018–19, whose examination by the Governing Body was initially due in March 2020 and has subsequently been deferred in view of the COVID-19

	Recommendation	External Auditor’s validation
	guarantee better results aggregation, moving forward. (Para. 84)	situation. The PIR is available on the Governing Body webpage here. The Office is revising its guidance on DWCPs to ensure alignment with the UNSDG new guidance on the United Nations Sustainable Development Cooperation Frameworks.
22	**RBM – Cascading of P&B outcomes to workplans**: We recommended that ILO: 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; 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; 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 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)	**Fully implemented** Based on the work of the RBM task force and the new Programme of Work for 2020–21, the Office has held a high-level OBW meeting in November 2019, where the relevant issues highlighted in the recommendation were discussed. Specific guidance on work planning has been provided during and in the follow-up to the meeting in order to support the implementation of the ILO programme in 2020–21.
23	**RBM – Use of OBW and UW formats:** We recommended that ILO: a. facilitate a forum of Outcome coordinating team (OCTs), concerned departments and field offices where in consultation with each other they will	**Fully implemented** Same explanation in No. 22 above.

	Recommendation	External Auditor's validation
	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; 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 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)	
24	**RBM – Information system supporting programme results management:** 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, Oracle Grants Accounting (OGA) and IRIS to identify and apply the necessary enhancements. (Para. 102)	**Fully implemented** The ERP system used by the Office to support strategic management (SM) has been enhanced to allow for better implementation of the new Programme of Work for 2020–21.
25	**RBM – Programme results monitoring – Overall monitoring system and mechanisms:** 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)	**In progress** The Office is developing a corporate monitoring system to support the implementation of the Programme of Work 2020–21, whose deployment is targeted by September 2020.

7. Appendix

Additional unaudited information

Detail of net assets revenue and expense for 2019 (US$ thousands)

	Net Assets 31 Dec 2018	Revenue 2019	Expense 2019	Foreign Exchange gain (losses) 2019	Net result 2019	Deficit financing	Adjustments to Net Assets	Net Assets 31 Dec 2019
Funds with approved budget:								
Regular Budget	84 512	385 843	(403 153)	15 254	(2 056)	76 415	(28 066)	130 805
CINTERFOR	1 212	1 946	(1 961)	(4)	(19)	–	(2)	1 191
ITC	17 407	47 447	(46 149)	185	1 483	–	(694)	18 196
Subtotal	**103 131**	**435 236**	**(451 263)**	**15 435**	**(592)**	**76 415**	**(28 762)**	**150 192**
Voluntary Contribution activities								
Development Cooperation Projects	(1)	279 991	(279 412)	(579)	–	–	1	–
RBSA	50 339	15 358	(13 890)	(129)	1 339	–	(11)	51 667
Subtotal	**50 338**	**295 349**	**(293 302)**	**(708)**	**1 339**	**–**	**(10)**	**51 667**
Subsidiary funds								
Programme Support Income	80 320	30 277	(12 980)	(461)	16 836	–	(309)	96 847
Publications	1 733	237	(141)	(4)	92	–	(2)	1 823
Information Technology System	1 665	26	–	(4)	22	–	1	1 688
Research	13 113	205	2 699	(31)	2 873	–	42	16 028
Gifts, Grants and Reimbursable Costs	5 798	2 559	(2 646)	(22)	(109)	–	(4)	5 685
Land and Buildings	499 794	30 082	(30 793)	1 425	714	–	99 689	600 197
Building Accommodation	25 234	24 545	(25 869)	132	(1 192)	–	(19)	24 023
Working Capital	35 461	–	–	436	436	(35 897)	–	–
Income Adjustment Account	63 606	2 425	(714)	232	1 943	(40 518)	(4)	25 027
Prior Period Surplus	802	13	–	7	20	–	(1)	821
Special Programme Accounts	7 192	97	(723)	57	(569)	–	(7)	6 616
Terminal Benefits	9 779	8 278	(5 202)	(45)	3 031	–	767	13 577
SHIF	56 273	54 124	(48 347)	(247)	5 530	–	(1)	61 802
ASHI Liability	(1 593 940)	–	(69 030)	–	(69 030)	–	(179 335)	(1 842 305)
ASHI Reserve	7 366	1 590	–	(17)	1 573	–	(1)	8 938
Other Funds	3 038	6 325	(3 365)	(7)	2 953	–	1 774	7 765
Subtotal	**(782 766)**	**160 783**	**(197 111)**	**1 451**	**(34 877)**	**(76 415)**	**(77 410)**	**(971 468)**
Inter-fund elimination	(60)	(133 132)	133 132	–	–	–	60	–
Total	**(629 357)**	**758 236**	**(808 544)**	**16 178**	**(34 130)**	**–**	**(106 122)**	**(769 609)**