



Governing Body

344th *bis* Session, Geneva, May 2022

Minutes of the 344th *bis* Session of the Governing Body of the International Labour Office

► Programme, Financial and Administrative Section

Programme, Financial and Administrative Segment

1. The Programme, Financial and Administrative Section of the Governing Body met on 27 May 2022. It was chaired by Ambassador Jardfelt (Sweden), the Chairperson of the Governing Body. Mr Lacasa Aso and Mr Dimitrov were the Employer and Worker spokespersons, respectively.

1. Programme and Budget for 2020–21: Financial report and audited consolidated financial statements for the year ended 31 December 2021 (GB.344bis/PFA/1)

2. **A representative of the Director-General** (Treasurer and Financial Comptroller) made brief introductory comments on the financial statements for the year ended 31 December 2021.¹ He confirmed that the Officers of the Board of the International Training Centre of the ILO in Turin (Turin Centre) had met on 20 May 2022 and had adopted the Centre's financial statements for the year ended 31 December 2021.
3. The ILO's consolidated financial statements incorporated the full scope of the Organization's activities, those funded through assessed contributions, those funded from extrabudgetary sources, and controlled entities. The statements had been prepared in compliance with the International Public Sector Accounting Standards (IPSAS) on a full accrual basis and reflected the financial activity for 2021, as well as the financial results of the 77th financial period (2020–21). The first section of the statements provided a financial report on the activities and challenges in the period, and a summary of the financial highlights and performance. The second section

¹ ILC.110/FIN.

contained the Statement of Internal Control, which provided details on the level of assurance and measures taken on the Office's internal control framework. With respect to the regular budget, Statement V-A reported on the financial performance of the Office against Member States' assessed contributions. Statement V was prepared on a modified accrual basis, in line with the provisions of the Financial Regulations. The table contained in note 22 to the financial statements provided a reconciliation of the results presented under Statement II and Statement V.

4. The Office had engaged extensively with the External Auditor throughout the audit process, which had been conducted virtually. It had accepted the recommendations contained in the audit report and was working on their implementation. The Office's summarized responses to the recommendations were included in the body of the report. A more detailed follow-up for the consideration of the Governing Body would be produced in due course.
5. **The External Auditor** (Chairperson of the Commission on Audit of the Philippines), began by introducing herself as the newly appointed Chairperson of the Commission on Audit of the Philippines and assuring the Governing Body that the Commission remained committed to delivering its mandate with competence, integrity and independence.
6. Presenting her report for the year ended 31 December 2021, she noted that the audit had been conducted in conformity with the International Standards on Auditing, to provide an independent assurance on the fair presentation of the financial statements, support the enhancement of transparency and accountability within the Organization, and contribute to the achievement of its operational objectives. The report highlighted four themes. First, the comprehensive audit had concluded that the financial statements fairly presented the financial position of the ILO for the financial year ended 31 December 2021, in accordance with IPSAS. Accounting policies had been applied on a basis consistent with that of the preceding year and an unmodified audit opinion had therefore been issued. She welcomed the efforts that ILO management had taken to address the recommendations that had been made, to present fairly the balance of accounts and to improve presentation and disclosures, in compliance with IPSAS. The 2021 financial statements already reflected the adjustments that had been made in relation to those recommendations. She commended the Treasurer and Financial Comptroller and his team for consistently preparing quality financial statements and for receiving an unmodified audit opinion since its adoption of IPSAS.
7. Second, with regard to the review of the programme and project implementation and delivery of outcomes 6 and 7, she noted that optimal achievement of the targets in the programme and budget had not been attained. The achievement of performance indicators for those two outcomes at the output level was also below target. It was critical to analyse the challenges in the implementation of the 2020–21 programme of work as the programming cycle moved forward. In addition, there had been limited mobilization of extrabudgetary resources for outcome 6, which would be necessary for the Organization to play a more significant role in the policy arena and for constituents and partners in demonstrating its impact and communicating decent work results. The results reporting process had been affected by a limited understanding of the technical notes in programme implementation planning, monitoring and reporting. There had also been inconsistencies in quality assurance, validation and monitoring processes, which could hamper the improvement of strategic programming at global and country levels. Monitoring activities also needed to be enhanced with regard to the programmatic allocation and financial delivery of regular and extrabudgetary resources, in order to identify resource gaps and policy outcome areas that were behind target. Another finding was that the Terms of Reference for the roles of the Outcome Coordinating Team were not clear.

8. On the third theme, relating to the review of implementation agreements, the requirement for competitive selection of implementing partners (IPs) had not been completely followed. There had also been delays in the submission or completion of deliverables by IPs, which had had a direct impact on the timely completion of projects. In addition, there had been no clear guidance on documenting the performance evaluation of IPs.
9. Lastly, the review of the control environment in country offices had identified improvement opportunities in the four Decent Work Technical Support Teams and country offices in several key areas: compliance with policies, regulations and rules, specifically with regard to the formulation of Decent Work Country Programmes, donor reporting, implementation agreements, and the management of assets, cash, procurement and travel; budgetary controls on project delivery to improve fund utilization; and the need to reinvigorate the risk management process through greater involvement of staff and a wider risk universe.
10. In sum, 20 audit recommendations had been provided and agreed to. ILO management had also been encouraged to implement the recommendations from previous years, in order to further improve operational efficiency and effectiveness.
11. **The Chairperson of the Independent Oversight Advisory Committee (IOAC)** reported on the IOAC's review of the financial report and audited consolidated financial statements for the year ended 31 December 2021 and the report of the External Auditor. During its review of the Office's Statement of Internal Control, the IOAC had noted the areas identified by management in 2021 as needing improvement, as well as progress made on issues identified in previous years. It particularly welcomed the focus on areas identified in the 2021 MOPAN (Multilateral Organisation Performance Assessment Network) review, as well as the changes made to the Enterprise Risk Management Framework. The financial statements for the year ended 31 December 2021 had again been presented in accordance with IPSAS. Although the required presentations and disclosures might seem onerous, the adoption of a recognized framework ensured that the results could be presented in an unbiased manner and compared to other entities following the same standards. The financial report on the 2021 accounts provided explanations of the year's results and the financial issues addressed. Those explanations assisted readers in understanding what the numbers represented and provided important context – such as the continued impact of the COVID-19 pandemic.
12. She was pleased to note that the Office had again achieved an unmodified audit opinion on its consolidated financial statements for the year, and that the external audit plan had been fully executed. She welcomed the efforts made by the External Auditor to complete the review of the control environment in country offices on a virtual basis. Specific issues that had been addressed with the External Auditor included: the assurance that the major changes in assumptions used for After-Service Health Insurance (ASHI) valuation were consistent with those of other United Nations entities in Geneva, where appropriate; that the recommendations made on the strategies, policies and procedures in programme delivery and in the area of operational efficiency were thorough and had all been accepted by management; and the areas of improvement identified in the review of implementation agreements and the control environment in country offices. The IOAC was satisfied with its review and recommended that the Governing Body forward the audited consolidated financial statements and the External Auditor's report to the International Labour Conference for consideration and adoption.
13. **The Worker spokesperson** noted with satisfaction the External Auditor's unmodified audit opinion of the consolidated financial statements, in accordance with IPSAS. He took note of the deficit of US\$48.3 million, particularly linked to the increase in activities in 2021, following the

lower level in 2020 resulting from the COVID-19 pandemic. He welcomed the increase in training services revenue for the Turin Centre, noting that the use of distance-learning modalities had increased the number of activities and outreach. It was good to see that the Organization had been able to adjust and respond rapidly to new circumstances, ensuring business continuity, the health and safety of staff, and the provision of support to Governments and employers' and workers' organizations during the pandemic. He reiterated the appreciation of the Workers' group for the commitment of funding partners to support the ILO's response to the pandemic.

14. He would appreciate further information from the Office on its view of the eventual continued decrease in investment income as a result of the drop in interest rates and the challenge of the Swiss franc negative interest rates. He would also be interested to know whether the Investment Committee had discussed the question of cryptocurrency investments, and if so what its views were. With regard to liabilities, he noted that accumulated leave and home leave liabilities remained high, having increased due to the pandemic-related travel restrictions. How did the Office view those liabilities, considering the limitation on the carry-forward of such leave balances?
15. With regard to the report of the External Auditor, he welcomed the Office's acceptance of all the recommendations made. Related to the review of the programme and project implementation and delivery of outcome 6, he reiterated his concern that the results were below the targets and that the lowest expenditures had been registered for that outcome. The report noted that Gender Equality and Non-discrimination was a new policy outcome, but the topic itself was in fact far from new. The Office must address the lack of progress in gender mainstreaming, especially in view of the fact that women had been particularly impacted by the pandemic. With regard to the control environment in country offices, there had to be greater compliance with policies, regulations and rules. Lastly, it was important to follow up on the 20 recommendations that were still only partially implemented, particularly the recommendations from 2016 on ethics.
16. **The Employer spokesperson** said that his group supported the draft decision in paragraph 5. He welcomed the information that had been provided about the Turin Centre, which was important. He also joined others in thanking the Treasurer and Financial Comptroller, the External Auditor, and the Chairperson of the IOAC for their work.
17. **A Government representative of the United Kingdom of Great Britain and Northern Ireland** said that although she respected the decision taken to transfer funds within Part I of the operational budget, based on the Governing Body's prior authorization for such transfers, she queried the assertion that the transfer did not affect the overall expenditure results, since it meant that the savings on policy outcomes could not be returned to Member States, as would normally have happened, in accordance with the Financial Regulations. Since inflation and exchange rate factors had led to a higher than anticipated level of expenditure, she asked what the Office was doing to ensure that the same did not happen again, both with respect to the Staff Health Insurance Fund and the wider budget.
18. **The representative of the Director-General** (Treasurer and Financial Comptroller), responding to the questions raised, said that the question of investment income and the Swiss franc negative interest rate policy was indeed challenging. The Office had recently met with bank officials and learned that the Swiss National Bank might be looking to move towards a zero interest rate policy, hopefully by the end of 2023. There would be an impact on investment income going forward, as well as other impacts on accounting. The ILO was risk averse and not looking to make money but rather to maintain its wealth at the same level. There had been

discussions on the right policy to take, but the Organization did not have any investments in cryptocurrency, nor any plans to make any. With regard to accumulated leave liabilities, he was confident that going forward the situation would resolve itself, as the leave was either taken or expired. With regard to the comments regarding the control environment, he noted that his team had worked to address the comments with the External Auditor and would be following up with the country offices and Decent Work Teams concerned. The Office had taken note of the outstanding recommendations and was actively working on them throughout the year. Some recommendations spanned several years, however, so would take time to fully address.

19. The transfer of funds within Part I of the budget had had no impact on the amount to be returned to Member States, as the level of the budget was within the appropriations granted by the International Labour Conference. Details could be found in Statement V-A as mentioned earlier on. On the question of inflation and exchange rate fluctuations, measures were being taken, including monthly reviews of information from external sources, as well as of costs and expenditure. Steps would be taken to address any shortfalls in 2022–23. It was a difficult situation to manage, but the Office was allocating additional resources to the task.
20. With regard to outcome 6, he said that questions relating to resources had been taken on board, however, since it was a new outcome that was set to take place over a number of years, it would take some time for the Office to come to an arrangement with donors over funding levels. There had been extensive discussions with the External Auditor and actions were being taken to address the matter.

Decision

21. The Governing Body:

- (a) **endorsed the transfer of US\$1,092,744 between items within Part I of the 2020–21 operational budget, as approved by its Chairperson based on delegated authority under article 16 of the Financial Regulations; and**
- (b) **took note of the External Auditor's report and forwarded the consolidated financial statements for the year ended 31 December 2021 and the External Auditor's report thereon to the Conference for consideration and adoption at its 110th Session.**

(GB.344 bis/PFA/1, paragraph 5)