

International Labour Organization

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Financial Report  
and Audited Financial Statements  
for the Sixty-ninth  
Financial Period (2004-05)

and Report of the External Auditor

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International Labour Office Geneva

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<sup>1</sup> International Institute for Labour Studies (IILS).  
Inter-American Vocational Training Research and Documentation Centre (CINTERFOR).  
International Occupational Safety and Health Information Centre (CIS).

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## 1. Financial report on the 2004-05 accounts

### General Fund

#### *Financial results for 2004-05 – Regular budget*

1. The International Labour Conference at its 91st Session (June 2003) approved an expenditure budget for the 2004-05 financial period amounting to US\$529,590,000 and an income budget for the period for the same amount. At the budget rate of exchange for the period of 1.34 Swiss francs to the US dollar, the income budget amounted to 709,650,600 Swiss francs. This amount was subsequently adjusted to 709,658,485 Swiss francs following the admission of the Democratic Republic of Timor-Leste (4,969 Swiss francs) and Samoa (2,916 Swiss francs) on 19 August 2003 and 7 March 2005 respectively.
2. The overall results for the 2004-05 financial period are summarized in Schedule 1.1.1 while the details of contributions paid by member States and expenditure are shown in the Schedule 1.2.1 and in Statement IV respectively. Valued at the budget rate of exchange and using the accrual method of accounting, total budgetary income for 2004-05 amounted to \$529,595,884. Expenditure under Part I of the budget during 2004-05 amounted to US\$528,715,000 as budgeted, after the absorption of US\$1,057,827 of the US\$1,473,500 in additional expenditure items which were approved by the Governing Body. A further US\$360,537 of expenditure relating to the additional items could not be absorbed under Part I and was charged against Part II in accordance with the decision taken by the Governing Body in November 2003.<sup>1</sup> The excess of income over expenditure for the biennium 2004-05, at the budget rate of exchange, thus amounted to US\$520,347. When revalued at the rate of exchange in effect at the close of the financial period (1.31 Swiss francs to the dollar), the excess of income over expenditure amounted to US\$532,263.
3. Arrears of contributions received in 2004 were in the first instance, transferred to the Working Capital Fund to reimburse the shortfall of income for the 2002-03 biennium. This transfer amounted to 14,964,475 Swiss francs (US\$11,423,263 at December 2005 rate of exchange). In accordance with article 18, paragraph 1, of the Financial Regulations, a provision for delays in the payment of contributions in the amount of 100 per cent of the outstanding contributions at 31 December 2005 has also been made. Since the total contributions outstanding at 31 December 2005 amounted to 174,753,584 Swiss francs as compared with the total contributions outstanding at 31 December 2003 of 141,810,523 Swiss francs, the provision required at 31 December 2005 was 32,943,061 Swiss francs (US\$25,147,375 at December 2005 rate of exchange) more than that which was required at 31 December 2003. The net shortfall of income after adjustments for the replenishment of the Working Capital Fund for the 2002-03 deficit and the provision for delays in the payment of contribution is US\$36,038,375 (47,210,271 Swiss francs).
4. 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 balance of this Fund standing at 34,350,670 Swiss francs, was, as a consequence, fully

<sup>1</sup> GB.288/9/1.

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exhausted. The Director-General accordingly had recourse to internal borrowing for the balance of the net shortfall (12,859,601 Swiss francs). In accordance with article 21.2(a) of the Financial Regulations, arrears of contributions received in 2006 will be used to reimburse the Working Capital Fund and internal borrowings.

5. Other funds forming part of the General Fund totalled \$172 million, and consisted, inter alia, of the Working Capital Fund, the Income Adjustment Account, Capital Funds relating to land and buildings, the Building and Accommodation Fund, Programme Support Accounts, and the Terminal Benefits Fund. Details of these funds are given in Schedules 1.1.2 and 1.1.3.

### **Other funds managed by the ILO**

6. Other funds managed by the ILO totalled some \$125 million at 31 December 2005. The major part of this amount (\$115 million) related to funds held for extra-budgetary technical cooperation activities. Compared with 2002-03, expenditure on extra-budgetary technical cooperation activities increased by 25 per cent and totalled \$319 million in 2004-05, of which \$7 million was financed by the United Nations Development Programme, and \$312 million by other donors.<sup>2</sup> Expenditure on activities financed by the United Nations Development Programme decreased by 59 per cent while expenditure on activities financed by other donors increased by 31 per cent. Details of funds held for extra-budgetary technical cooperation activities are given in Schedule 3.1, while details of other funds managed by the ILO are given in Schedule 2.1.

### **Land and buildings**

7. The construction of the ILO premises in Lima and Santiago were completed in September 2004 and June 2005 respectively. The construction of Dar es Salaam Office began in April 2005 and was still ongoing at the end of the 2004-05 biennium.

<sup>2</sup> Including trust fund deposits by governments, funds placed at the disposal of the ILO by certain government agencies for multi-bilateral programmes and associate expert schemes, activities financed through United Nations organizations including the United Nations Population Fund, and funds placed at the disposal of the ILO by a number of non-governmental agencies.

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## 2. Report of the External Auditor 2004-2005

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■ External collaborators and short-term contracts	(paragraphs 75-89)
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<i>Scope and audit approach</i>	<i>Annex 1</i>
<i>Management responses to previous recommendations</i>	<i>Annex 2</i>

### Executive summary

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| <ul style="list-style-type: none"><li>- An unqualified audit opinion on the financial statements</li><li>- 12 recommendations from our review of the implementation of IRIS</li><li>- 4 recommendations to improve ILO's governance arrangements</li><li>- 4 recommendations on Internal Audit</li><li>- 7 recommendations for improvements in the management of external collaborator and short-term contracts</li><li>- 4 further recommendations on financial matters</li></ul> |
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### Overall results of the audit

1. This report represents the findings and recommendations arising from the work carried out by my staff on the audit of financial statements. Our audit yielded satisfactory results and revealed no weaknesses or errors which we considered material to the accuracy, completeness or validity of the financial statements as whole. As a result, I have placed an unqualified opinion on the financial statements of the International Labour Organization for the financial period 2004-2005.
2. Despite a number of transitional problems relating to data transfer and system interfaces in connection with the new finance system, the Treasurer and Financial Comptroller and his team were able to provide draft financial statements for audit by the required deadline of 31 March 2005. We commend the finance team for their significant efforts during the accounts closure and preparation period.
3. We audited the accounts of the International Labour Organization in accordance with the Financial Regulations and in conformity with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. The scope and approach of the audit were communicated to management in a detailed audit strategy, key aspects of which are set out at Annex 1 to this report.

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## **Main audit findings**

### ***On management matters***

#### **Implementation of the Integrated Resource Information System (IRIS)**

4. In our long form report for 2002-2003 we reported our interim audit findings on management's preparations for the implementation of the Integrated Resource Information System (IRIS). IRIS has been one of the ILO's largest change projects in recent years and has provided a focus to streamline and integrate financial systems and processes within an environment of sound and secure controls. Using specialist IT expertise, we reviewed the implementation of IRIS in order to provide the Governing Body with an independent assessment of progress; and to provide management with observations and recommendations which could inform the future establishment of IRIS in field offices.
5. There had been improvements to the overall management and governance of the IRIS project since our last report; and we welcome the role which the new Programme, Finance and Administrative Committee's (PFAC) Information and Communications Technology Subcommittee can play in providing further improved oversight of the project planning, costing and delivery schedule of future IT projects, and of the further phases of IRIS. The original project budget was established at US\$20 million, with further budget approvals totalling US\$31.9 million to recognise additional and transitional costs. The overall implementation costs of IRIS to date now stand at some US\$50 million, not including time spent by some regular staff on the IRIS project. We believe it is important that the cost of staff resources should be clearly identified and monitored as part of the decision processes and financial management of major projects in the future.
6. We reviewed the management processes for deciding to implement IRIS in April 2005 and identified that there had been no pre-determined criteria on which to make this decision, although management had taken account of a number of key considerations that informed their decision. We believe that greater attention could have been paid to ensuring greater user involvement during the design and testing stages of IRIS, which might have minimised some of the problems encountered in the initial months after its implementation. We further believe that there is need to consider the training needs of IRIS users, to ensure that they are able to obtain full benefit from the improved functionality provided by the system.
7. In relation to system management and operations, we identified the need for management to obtain assurance over the physical security environment of its out-sourced infrastructure provider, by obtaining an independent and recognised standard assurance report. We also identified improvements which could be made in the software management of IRIS, through the use of recognised industry standards to ensure that changes to the software environment follow a documented and systematic approach. Similarly we identified the need to properly document the ILO's business continuity plans so as to provide improved assurance to management on the completeness and practicality of these arrangements, particularly in relation to IT systems in the field. IRIS provides an opportunity for improvements in controls and we have recommended that management obtain independent assurance on the effective operation of these controls, now that the implementation in Headquarters has been completed.
8. In order to ensure that the ILO obtains best value from the IRIS implementation, we encourage management to undertake a post-project evaluation, to identify good practice and areas for improvement which can be used to inform future IT projects. This evaluation could also be used to inform the Governing Body of the extent to which the project's

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objectives have been met and identify areas which may still need attention. We noted that, while many improvements to business processes have been made, there is still scope for improvement and we encourage management to assess remaining processes which may need review to ensure that the benefits of IRIS can be maximised.

### Governance arrangements

9. Sound governance arrangements are necessary to support effective financial management and to ensure proper accountability over the use of the Organization's funds. We carried out a review of ILO's governance arrangements and have reported on these in the context of current best practice and the developments in the United Nations system. Our recommendations are intended to encourage and inform the work of the ILO's Task Team on Improvements in Management and Accountability.
10. In this context, we have recommended that the ILO should establish an independent and expert audit oversight committee to complement and enhance the oversight provided by the Programme, Financial and Administrative Committee (PFAC) on the effectiveness of internal controls and to critically review the responses of management to outputs from internal and external audit work. We have also recommended that the ILO should consider the adoption of an improved financial reporting framework, recognising the recommendations made by the United Nations System's High-Level Committee on Management for the adoption of International Public Sector Accounting Standards, which we believe would provide greater transparency and improved and more frequent financial reporting to the Governing Body. We have also made recommendations to support the ILO's Task Team in introducing a formal process to require key staff to declare and register any personal interests which might be seen to conflict with their ILO responsibilities.
11. Internal audit plays an important role in providing assurance to the Director-General on the effectiveness of the ILO's internal control framework. We examined the work of the Office of Internal Audit and Oversight (IAO) and identified a number of areas where we believe improvement is needed to provide the necessary level of assurance to management and the Governing Body, and to obtain value for the costs incurred. Our recommendations draw attention to the need for: improved audit needs assessment; the acquisition of appropriate skills and specialist IT audit support to meet the challenges of auditing internal controls with IRIS; and the development of improved and more comprehensive risk-based planning, which should be formally accepted or approved by the Director-General.

### External collaborator and short-term contracts

12. The ILO engages staff to deliver its programmes using a number of different contract mechanisms. In 2004-2005 the ILO spent more than US\$70 million on the resourcing of short-term and external collaborator contracts. Our field visits over the last few biennia have demonstrated that there is scope to enhance the way in which these resources are controlled and utilised. As part of our audit we collected data from field offices and Headquarters to assess the use and management of these contracts. From this analysis we identified a number of areas where improvements could be made by:
  - Reinforcing existing guidance to managers and considering alternative arrangements, such as out-sourcing or call-off contracts for staff regularly employed on a short-term basis;
  - Carrying out more systematic evaluation of the performance of external collaborators, in order to share findings and minimise the risk of duplication of work or outputs;

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- Compiling a database of high quality external collaborators, to support a greater element of competition and ensure best value; and
  - Utilising IRIS to create improved monitoring and exception reporting, in order to secure improved control.

#### On financial matters

13. Our audit identified problems in the interface between IRIS and automated bank reports, leading to significant delays in the reconciliation of bank balances during the second half of 2005. The absence of these bank reconciliations seriously weakened the internal financial controls during this period and we have recommended that these and other key control account reconciliations be maintained on a timely basis.
14. During audit visits to ILO's field offices in 2005, we noted problems encountered by offices which were unable to agree their local accounting records to ILO's General Ledger. We also noted a reduction in the application of verification controls to field office transactions, and we have recommended that sufficient resources be made available to ensure that this valuable control remains effective. Weaknesses in these controls reduced the assurance which management were able to obtain in relation to field office transactions during 2005.
15. We reviewed suspense accounts and staff advances and have suggested continuing review and oversight of these areas by management.

### Detailed report findings

**Management matters:**

- IRIS
- Governance arrangements
- Internal audit
- External collaborator and short-term contracts

**Financial matters:**

- Accounting records
- Bank reconciliations
- Field accounting records
- Verification
- Suspense accounts and staff advances
- Other financial matters

**Follow-up to previous audit recommendations**

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## On management matters

### *Implementation of IRIS*

- Introduction and background to Project IRIS and our audit approach
- Observations and recommendations to inform future IT developments and improve the ILO's arrangements by:
  - Enhancing project governance mechanisms to offer greater assurance to the Governing Body
  - Assessing and recommending improvements in project management
  - Review of user training and support following implementation
  - Assessment of system management, operations and controls
  - Comprehensive post project evaluation and business process review

#### Introduction

16. In April 2005, the International Labour Organization (ILO) implemented and began using the Integrated Resource Information System, IRIS. IRIS is a fully integrated system linking key business processes such as human resources and procurement to the underlying financial system. IRIS replaced the old legacy systems which had been developed in the 1960s and 1970s and which had become increasingly inflexible and difficult to maintain, and which lacked the capacity to integrate with other systems needed to run a large modern enterprise.
17. The main benefits of IRIS were identified as providing support for organisational change and reform; improving integration of field and Headquarters; providing management support; improving access to information; and better aligning information technology applications with the ILO business processes. IRIS has been one of the ILO's largest change projects in recent times and has provided a focus to streamline and integrate financial systems and processes in an environment of sound and secure controls.

#### Background to our audit approach

18. We carried out a review of the key areas of implementation to identify scope for improvement in ILO's project management of information technology (IT) developments. The review follows on from our audit findings in 2002-2003, where we identified a lack of clarity in the scoping of IRIS at the outset of the project, and that it lacked a clear identification of intended benefits. At the same time, we identified a lack of rigour in the project risk management, and delays and cost over-runs from the initial estimates. We also identified concerns in relation to the staffing of the IRIS implementation and the provision for training.
19. For 2004-2005, we focused on reviewing the overall governance and project management in this final stage of Headquarters implementation. We reviewed the user training and support for IRIS; and its system management and operation. And, finally, we reviewed the ILO's evaluation processes applied to Project IRIS. Our audit observations and recommendations are intended to benefit the ILO in securing improvement for the next phase of Project IRIS, its field implementation. This report also provides assurance to the Governing Body on the overall implementation of the first phase of IRIS and any residual risks.
20. Our audit work was undertaken with the assistance of an IT audit specialist with wide experience of project implementation; and involved discussions with key project

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personnel, a review of relevant documentation provided by the ILO, and the application of substantive audit procedures used in our audit opinion of the financial statements.

## Project governance

21. As we identified in the previous External Auditor's Report, the IRIS project initially lacked a clear and realistic identification of costs and benefits which is essential to the effective management of a project. Since these observations were made, the governance of IRIS has evolved and improved during the project lifecycle. In February 2004, the Director-General prudently commissioned an independent external review to assess progress to date. The conclusions of this report were disclosed to the March 2004 Governing Body in document reference GB.289/PFA/3(Add). The external review resulted in a revision of the IRIS management structure and the introduction of an improved governance framework and project governance charter, which substantially improved the previous arrangements.
22. A new Senior Executive Project Sponsor, reporting directly to the Director-General, was appointed to oversee the implementation of the project, with a project board and a reformed stakeholders' committee replacing the Executive Sponsors and Project Owners Committee. This new arrangement provided clearer lines of responsibility and authority for the achievement of the project's objectives. Future IT projects should ensure that clear and effective arrangements are established from the outset.
23. Although two independent quality assurance reviews had taken place during the pre-implementation phase of IRIS, formal project milestones were limited and there were no processes to evaluate and follow-up the findings of the independent assessments. It is good management practice to obtain assurance through regular review and reporting against key performance targets during a project lifecycle; and ideally the results of such monitoring should be reported to the Governing Body.
24. The Programme, Financial and Administrative Committee's Information and Communications Technology Subcommittee met for the first time in November 2005. We welcome this development as a very positive step in the governance of IT in the ILO. We would encourage this Committee to meet regularly, both to provide effective oversight at a strategic level and to monitor the delivery of significant projects on an on-going basis. We also believe that this Committee should review the effectiveness of project implementation by ensuring that management undertake post-implementation reviews and measure the extent to which projects meet their intended budgets, timescales and benefits.

***Recommendation 1: We recommend that the ILO ensures that effective governance arrangements are in place at the start of all major projects, and that these provide for independent assessments. We further recommend that, for all future IT projects, the Information and Communications Technology Subcommittee of PFAC consider reviewing and monitoring project progress against clear plans and milestones.***

## Project management

### *Implementation costs*

25. The original budgeted cost for the implementation of the financial modules of IRIS was US\$20 million. Following the addition of the human resource modules and a subsequent review of the project, the estimated cost was revised to a budget of US\$40.0 million for the design and building of the system. A further US\$11.9 million was estimated as necessary for transition and contingency funding. Management currently estimate the total development cost at US\$39.9 million, with a further US\$9.8 million having been spent

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since mid-November 2004 on transition and operating costs. No specific estimate has yet been prepared for the cost of the system's implementation in ILO's field network. Management have advised that they plan to use existing resources for this purpose. As we have previously reported, it is not possible to provide a complete analysis of the total costs of the IRIS project, since there have been a number of indirect costs, such as time spent by some regular budget staff on IRIS issues, which have not been charged to the project. The total costs charged to IRIS at the time of this report amounted to some US\$49.8 million.

26. The provision of adequate resources to upgrade and maintain IRIS will be essential to ensure that it can continue to meet the ILO's needs. The original proposals for the Organization's Programme and Budget 2006-2007 included an allocation for IRIS upgrades; however in the final approval stage these provisions were excluded. It is important that the Programme and Budget includes provision for these upgrades in the future. A total cost-of-ownership study commissioned by management in mid-2004 estimated the normal ongoing costs of IRIS at US\$8 million a year, excluding any provision for system upgrades. The cost studies which have been undertaken to date are reflected in the programme budgeting for 2006-2007, being partly met by anticipated savings.
27. ILO has not however yet addressed the cost of upgrades and the budget for the implementation of IRIS at field offices, and we believe early estimates of these costs are important. Future projects should ensure that a clear cost structure and analysis of full staff costs, including indirect staffing, annual maintenance and system upgrades, are included in project proposals.

***Recommendation 2: We recommend that the ILO ensures that the full costs are realistically forecast at the outset of a project, with an analysis of on-going maintenance and upgrading; and that a more detailed cost analysis is provided to the Information and Communications Technology Subcommittee of PFAC.***

#### *Implementation criteria and user acceptance*

28. The ILO originally planned to implement IRIS at headquarters in early 2004 and to begin the implementation in field offices by the end of that year. The planning for this implementation lacked a robust risk-based assessment; and underestimated the challenges which the ILO would face in implementing such a large scale project. The use of IRIS at Headquarters began in April 2005 and there has been some functionality provided to field offices. Field offices currently have access to IRIS's Strategic Management Module and we understand that the process of implementation in the field will be in progress by the end of 2007. The ILO currently has a number of task forces dedicated to reviewing the strategy and user needs for implementation in the field. This approach is prudent, as the decision to implement IRIS in the field will present more complicated challenges and risks for the ILO which will require careful consideration and management.
29. As we identified in our previous report, we recommend that the future progress of implementation in the field should be taken forward against a clear cost-benefit analysis of the efficiency gains which are expected to result from field operation. There are clearly additional risks in establishing IRIS in the field, and these will include the complexity of providing training and ensuring effective, secure communications across the field network. Field operation will alter the nature of the relationship between Headquarters and local offices, by providing for improved integration and monitoring of the work outside Geneva.
30. We found that the project team had no pre-determined criteria for the activation of IRIS, although we noted a range of procedures which were followed to assess readiness, including the performance of parallel payroll runs, formal status reports and work plan

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summaries. No formal document was signed off to evidence the decision to go to live running, but a meeting of the senior IRIS Board approved the implementation of the project in April 2005. We would encourage the ILO to establish formal implementation criteria for future projects against which progress can be judged and decisions can be taken for live running.

31. A fundamental element in successful project implementation is user acceptance testing. This helps to ensure that the system meets the specified objectives and users' requirements. User acceptance testing involves the engagement of users in detailed testing of the functionality and performance of the system, against identified operational requirements established in advance. While recognising a degree of user involvement and attention given to payroll acceptance testing, we believe that greater user involvement at both the design and testing stages of IRIS would have reduced some of the initial implementation problems in areas such as cash management, interfund balances and exchange rate accounting.
32. The IRIS project team developed possible scenarios of how IRIS would process data; and this was then demonstrated through presentations to the relevant user community to obtain feedback. This approach did not cater for the wider range of user scenarios which can only be anticipated through users being more directly involved in formal acceptance testing. In consequence, there was a risk that process designs might not meet user requirements. After IRIS went live, and because of the large numbers of issues raised by users, the IRIS project team introduced a number of measures to ensure that users were more closely involved in identifying and highlighting issues, so as to stabilise and improve the IRIS system.

***Recommendation 3: We recommend that, as a matter of good management practice, future IT projects should include implementation criteria, and formal procedures for system approval by the users and by senior management.***

***Recommendation 4: We recommend that greater attention be paid to assessing the adequacy of parallel running and user acceptance testing prior to implementation.***

#### User training and support

33. The project plan underestimated the training requirements of IRIS users and there proved to be insufficient training instructors to meet these training needs, particularly in the initial period after implementation. As a result the level of staff awareness and the capabilities of some users were not fully developed, especially in the period immediately following implementation. In consequence, users were slow to identify and utilise the improved functionality provided by IRIS. While recognising subsequent improvements in this area, we note the importance of the ILO evaluating its approach to training to ensure that all users of the system have received the necessary levels of training to meet their needs and that an adequate level of resource is available to ensure this can be delivered.
34. The implementation of any new system will require significant initial support to resolve system problems and to maintain users' confidence. The ILO provided support to IRIS users after implementation through a centralised support function, consisting of staff nominated in each department to complement the IRIS project team. We found that the level of involvement of these staff with the IRIS project varied and, as a consequence, there was a greater than anticipated dependence on the IRIS project team to resolve problems. A significant proportion of Project IRIS staff time was diverted therefore to resolving user queries. The ILO has continued to refine this support process by establishing a more structured helpdesk service for IRIS, resourced by individuals with experience in the various business modules of the system.

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35. The ILO has recognised the importance of knowledge transfer from the IRIS project team through the involvement of regular staff during the project process, who have now returned to their business units. As the ILO move towards implementation in field offices, it is important for management to continue to ensure that knowledge and skills are transferred and retained within the ILO's regular staffing.

***Recommendation 5: We recommend that the ILO should evaluate its approach to the training and development of IRIS users, to ensure that user needs are met and that sufficient resources are made available to fulfil this need.***

***Recommendation 6: We recommend that the ILO continues to ensure that adequate system support and knowledge transfer mechanisms are in place for future IT projects.***

## System management and operation

### *Hardware management*

36. The ILO carried out a formal outsourcing exercise, which included ITCOM (the ILO's in-house IT unit), for maintenance and infrastructure support for IRIS. As a result of this exercise, the ILO entered into a five year contract with an external provider, with the service being monitored under a Service Level Agreement (SLA) with regular review meetings and monthly performance reports against agreed service levels.
37. The ILO has not yet formally assessed the provider's control and systems environment to ensure it continues to offer the appropriate degree of assurance to management. We would encourage the ILO to obtain this assurance by requesting regular statements which meet recognised assurance standards, such as ISO or independent assurance statements like SAS70. These requirements represent commonly accepted elements in IT outsourcing arrangements and should be specifically included in the SLA.

### *Software management*

38. Software maintenance and changes to IRIS have been controlled through a Change Control Board (CCB), consisting of the Project IRIS team and user representatives, with changes being implemented and tested by the Change Control Lead. The project team followed a well defined process to analyse; identify; investigate; resolve and track requested changes in IRIS. In common with other large implementation projects, the number of requests generated outweighed the available resources, and management mitigated this effectively through enhanced prioritisation and oversight of change requests.
39. The ILO has not yet embedded the processes of software change control as part of its policies and procedures, or in the general IT operations of ITCOM. This has been acknowledged by the ILO and an IT governance strategy is being developed to provide greater assurance in this area. These developments will focus on the use of accepted, industry standard IT project methodologies, such as the internationally recognized framework of Control Objectives for Information and Related Technology, COBIT. We would encourage the development of these methodologies to provide greater assurance that processes follow a documented, systematic and structured approach.

### *System security and disaster planning*

40. Security of business systems and processes are important in maintaining effective operations, adequate internal controls and the integrity of data. Establishing a strong information security environment is therefore an important consideration in the

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implementation of any new system. We found that the ILO had not yet formalised detailed IT security policies and procedures relating to IRIS. In addition we identified a need for on-going review of security access responsibilities assigned to users, particularly those initially assigned at the development stage.

41. Although there are a number of technical measures in place to prevent loss of service, the ILO has not yet articulated a systematic contingency and recovery plan to document the arrangements for providing continuity of service in the event of disaster or disruption. The absence of a formal plan for business continuity arrangements presents risks for the ILO's operations. We believe it is important that the ILO develops a comprehensive risk-based continuity plan. This is particularly important in the context of IRIS's eventual implementation at field offices, where there are security or physical risks and where adequate arrangements are of particular importance. Our audit visits to field office have already identified weaknesses in existing business continuity arrangements in relation to data back-up, security and system continuity arrangements.

#### *Internal controls*

42. IRIS provides an environment for the application and evidencing of clear internal controls, and offers opportunity to improve the internal control framework of the Organization as a whole. Due to the relatively recent establishment of IRIS and the priorities of addressing initial implementation issues, the ILO has not yet undertaken a comprehensive process to verify the operation of controls in the new system. We believe it is important for the ILO to validate the operation of internal controls within IRIS to provide assurance on their effective operation. Internal Audit has undertaken some preliminary work but this has not yet provided the assurance to management which we feel would be appropriate and prudent during the initial period of a new IT system. Given that this assessment has not yet been done, and because IRIS was only implemented from April 2005, our financial audit did not seek to place significant reliance on these new controls, and we sought alternative substantive evidence to support our audit opinion.

***Recommendation 7: We recommend that the ILO obtains standard assurance reports on the system control environment as an integral part of the service level agreement with the external IRIS infrastructure provider.***

***Recommendation 8: We recommend that the ILO develops and implements an accepted good practice methodology for software development and control, for example as offered by COBIT.***

***Recommendation 9: We recommend that the ILO establishes formal IT security policies to cover IRIS, including a structured and comprehensive business continuity and disaster recovery plan.***

***Recommendation 10: We recommend that management seek independent assurance on the effectiveness of the new internal control framework and systems within IRIS.***

#### Project evaluation of IRIS

##### *Post project evaluation*

43. The ILO has not yet carried out any formal and objective assessment of the project management process. An objective project management review can identify areas for improvement and opportunities for sharing good practice, which can then be used to enhance project management of the field implementation phase of IRIS and help aid the management of other IT system implementations in the ILO.

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44. The monitoring and measurement of progress against pre-set objectives is an important part of the evaluation of an IT systems implementation. By measuring progress, the ILO would be better able to assess the need to apply resources towards objectives which have not been fully delivered but which are most relevant to the benefits that the project is designed to deliver. The measurement of objectives will also enable the Director-General and the Governing Body to assess the extent to which a considerable level of resources has been utilised in an efficient and effective way. We recognise that some individual benefits have been identified and reported on IRIS, but would encourage the ILO to undertake a wider and more comprehensive review, which should be reported through the PFAC.

#### *Business process review*

45. A major part of an effective post-implementation review would be to assess the extent to which IRIS has streamlined and rationalised existing business processes and produced financial and efficiency gains. A comprehensive business process review should be the starting point for planning a successful integrated financial system. A review should include the assessment and identification of key processes; review of the presence and effectiveness of controls; and an assessment of the efficiencies of transactions processing.
46. Although the ILO reviewed over 200 business processes at the outset of the project, we were unable to find evidence of a comprehensive and systematic review based on the functionality of the Oracle Financials system. The ILO had failed to capitalise on the benefits of the review it carried out through the elimination of previously inefficient business processes, which reduces the potential benefits of the IRIS. Since the initial implementation of IRIS in Headquarters, the ILO has begun to rationalise some key business processes which had not previously been reviewed. This has given rise to some improvements in areas such as finance and travel, where procedures will become less labour intensive with less need for manual intervention.
47. As part of the planning for the implementation of IRIS in the field, we would encourage the ILO to carry out a systematic and comprehensive review of business processes, based on the controls and procedures available in Oracle. Central to this review should be the consideration of how the ILO intends to use IRIS to facilitate improved central monitoring and greater decentralisation to the field offices. To ensure that the potential benefits of IRIS are maximised, we believe that the ILO should also consider whether there are any significant remaining areas where Headquarters' business processes have not yet been reviewed. This review could be used to identify training needs, so as to ensure that staff become fully engaged in IRIS and adapt to the significant cultural change which the system represents.

***Recommendation 11: We recommend that the ILO should undertake a formal and objective post implementation review of project management and the achievement of the project's objectives.***

***Recommendation 12: We recommend that the ILO undertakes a business process review to maximise improvements in control and efficiency which should flow from IRIS; and to inform training needs.***

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## **Review of ILO's governance arrangements**

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| <ul style="list-style-type: none"><li>- Review of the principles and importance of good governance for the ILO</li><li>- Observations and recommendations to improve governance through:<ul style="list-style-type: none"><li>- Enhancing oversight arrangements with an audit oversight committee</li><li>- Establishing systematic arrangements for risk management</li><li>- Improving the framework of financial reporting</li><li>- Introducing improved ethical arrangements</li><li>- Improving the effectiveness of Internal Audit</li></ul></li></ul> |
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### **Principles of good governance**

- 48.** Sound corporate governance and an effective system of internal control are integral to effective financial management, accountability and transparency. Confidence in governance is necessary for the achievement and success of objectives; and to maintain an environment which provides assurance and confidence to the Governing Body. There has been a considerable evolution in corporate governance in recent years, in both the private and public sectors. Corporate failures, frauds and poor systems of internal control have been linked to the absence of effective oversight and governance. High standards and good practice in governance are therefore increasingly relevant to all organisations and improvements to governance arrangements have become a central focus for the United Nations system and member States.
- 49.** Good governance requires clear and effective oversight mechanisms; a focus on risk management; reliable and credible financial and performance reporting; sound ethical standards and practices; and assurance on the operation of internal controls. These elements facilitate proper stewardship, accountability and integrity in an organisation, and provide governing bodies and other stakeholders with an appropriate level of confidence in the way in which an organisation manages its financial resources.

### **Enhancing oversight**

- 50.** Article 30 of the Financial Regulations states that the Director-General shall establish detailed financial rules and procedures in order to ensure effective financial administration; the exercise of economy; and effective custody of the physical assets of the ILO. The Director-General therefore carries ultimate accountability for the management of risk and the system of internal control within the ILO.
- 51.** The Governing Body exercises its governance responsibilities for the oversight of financial administration through the Programme, Financial and Administration Committee (PFAC). PFAC is responsible for examining budgetary estimates and expenditure of the International Labour Office, as well as all financial and administrative matters referred to it by the Governing Body or submitted by the Director-General. PFAC fulfils an important role but does not systematically or comprehensively review the systems of internal control; the plans, work or detailed reporting of the Internal Auditor; the ILO's systems of risk management; nor the detail of the implementation of all audit recommendations. Consequently the Director-General and the Governing Body lack a wholly independent expert forum to provide advice to assess and monitor the internal control environment.
- 52.** We believe that an audit oversight committee of four or five independent financial experts, meeting two or three times a year, would enhance governance and provide useful advice and guidance to both the Director-General and the Governing Body. The principle of an independent and expert audit oversight committee has been recognised by the United

Nations Secretary General (UN document reference A/60/568), who has articulated appropriate terms of reference and criteria for independent expert members to provide advice and oversight. The proposed UN arrangements meet all commonly accepted good practice requirements and we would recommend this model for adoption by the ILO.

53. The key functions of an audit committee are set out in Table 1.

**Table 1. The role of an Audit Committee**

<b>Governance Objective</b>	<b>Audit Committee tasks</b>
Promoting Internal Control	<ul style="list-style-type: none"> <li>■ Systematically appraise management's actions to maintain and operate appropriate and effective internal controls.</li> <li>■ Encourage the development of an anti-fraud culture through its scrutiny function.</li> <li>■ Review the operation and effectiveness of the Financial Regulations.</li> <li>■ Review the Organization's assessment and approach to risk.</li> </ul>
Focusing Assurance Resources	<ul style="list-style-type: none"> <li>■ Review and make observations on the audit plans and arrangements for Internal and External Audit.</li> <li>■ Encourage liaison between the internal and external audit functions.</li> <li>■ Confirm that appropriate audit and assurance arrangements have been applied during the year to provide the necessary levels of assurance required by the Governing Body.</li> </ul>
Monitoring Audit Performance	<ul style="list-style-type: none"> <li>■ Ensure timely, effective and appropriate responses from management to internal and external audit recommendations.</li> <li>■ Monitor the delivery and content of the financial statements in accordance with the requirements of the financial regulations.</li> <li>■ Confirm that audit recommendations have been implemented.</li> </ul>

Source: External Auditor.

***Recommendation 13: To reflect best practice in modern governance arrangements, we recommend that the Governing Body establish an independent audit oversight committee of experts to provide advice to the Director-General and the Governing Body on the effectiveness of internal control, financial management and reporting, and internal and external audit outputs.***

## Risk management

54. Management need to effectively manage resources and risks to achieve the Organization's objectives. The identification, assessment and management of risk is critical to providing a focus for resources, and to establish controls and procedures in areas where risks can have a significant impact. The ILO continues to face risks associated with delivering its challenging mandate and in co-ordinating activities on a worldwide basis. It has also faced operational challenges in planning and managing major IT developments and in dealing with changing security situations in field offices.

55. While the ILO manages risk at a local management level as part of normal activities, it does not currently have any systematic arrangement to reliably identify and manage operational risk at a strategic level. A comprehensive and systematic process would include the establishment of a risk register to identify and manage risks and allow management to direct and prioritise resources. A systematic focus would encourage better

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management, provide greater assurance to senior management and enhance accountability. Our visits to field offices have demonstrated the inconsistencies in the management of risk and the need for a more systematic assessment to protect the ILO's interests. Our observations on Project IRIS also highlight the importance of identifying and monitoring potential operational or business risks in a systematic way.

***Recommendation 14: To improve the quality of the ILO's governance, we recommend that management introduce a systematic approach to risk management at strategic level.***

### Improved financial reporting

56. Transparent and accurate financial reporting is a key component of good governance arrangements and provides a source of assurance to the governing body. A sound framework of financial reporting increases the accountability of managers and provides confidence in the stewardship of public funds. The ILO has a history of sound financial reporting, fairly presenting its financial position and performance.
57. In November 2005, the High Level Committee on Management of the United Nations took a decision to recommend the adoption of International Public Sector Accounting Standards (IPSAS) as the basis for the preparation of United Nations financial statements from 2010. The independent financial reporting requirements set out in IPSAS are more detailed and transparent than those of the existing United Nations System Accounting Standards (UNSAS), used by the ILO and other UN system organisations as the basis for the preparation of annual or biennial financial statements. We note that the adoption of IPSAS will be considered at the ILO Governing Body in November 2006.
58. Preparation of annual financial statements in compliance with independent international standards will ensure more timely assurance on the use of resources and increase transparency, and support improved accountability and better decision making. To address the changes that would be required with the adoption of IPSAS, we would encourage the ILO to develop an appropriate project plan and assess the requirements and resources which will be needed, particularly in relation to the necessary knowledge, skills, information technology and training.

***Recommendation 15: We recommend that the ILO adopt International Public Sector Accounting Standards as the basis for the preparation of annually audited financial statements. We would encourage the ILO to provide an assessment of the required changes to Financial Regulations which would result from the adoption of IPSAS, with a timetable for implementation.***

### Ethical framework

#### *Background*

59. Public and international organisations, including the United Nations system, are increasingly under pressure to meet and be seen to meet the expectations of sound ethical conduct in their operations, and to be proactive in establishing specific and effective mechanisms to demonstrate that these expectations are being met. Modern standards of governance are increasing the pressure on organisations to enforce and communicate improved ethical requirements and practices.
60. The obligations and expectations on staff conduct are set out in the Standards of Conduct for the International Civil Service, the ILO Staff Regulations and ILO Circulars. We

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understand that the Human Resources Development Department will shortly issue a consolidated new circular on this matter. This circular will highlight the requirements of the International Civil Service Standards of Conduct and will raise awareness of the duties and responsibilities of ILO Officials. We welcome this development and would encourage the ILO to ensure that staff are regularly reminded of their obligations under this Code.

61. We have noted the work of the ILO Task Team on Improvements in Management and Accountability, and the debate on the establishment and role of an ethics officer. We welcome the Director-General's commitment to this process, as expressed to the March 2006 Governing Body. We will monitor these developments as part of our audit for 2006-2007.

#### *Registers of interest and receipts of gifts*

62. By ensuring that staff register financial interests and report the receipt of hospitality and gifts, the ILO would be able to enhance its monitoring of probity and transparency in the conduct of operations. Transparency in these areas sets an example of proper professional standards and will help to prevent and detect instances where conflicts of interest could give rise to inappropriate behaviour.
63. We welcome the new requirement for procurement staff to declare financial interests and we understand that this process is to be enhanced to encompass a broader range of staff in other functional areas. We welcome this development and encourage the Director-General to establish appropriate procedures for staff to make an annual declaration of interests and to identify any potential pecuniary or non-pecuniary interests for themselves or their immediate family. We also recommend that staff be asked to formally register gifts or hospitality received from suppliers or external parties in the course of business. All declarations should be made and recorded in a centrally maintained register, to enable management and auditors to assess the effect of any disclosures.

***Recommendation 16: We recommend that ILO finalise procedures for establishing a central record of annual declarations of financial interests of staff members and their immediate family; and establish a central register of the receipt of gifts or hospitality.***

#### *Reporting concerns of misconduct*

64. It is now an accepted practice in the public sector and in international organisations to establish an approved channel for the confidential reporting of concerns about conduct or maladministration, particularly where suspicion or knowledge of criminal or regulatory malpractice is concerned. Effective arrangements for whistle blowing are recognised as a useful deterrent to malpractice and an effective means of bringing unacceptable conduct to light. Whistle blowing procedures can encourage openness, promote transparency, underpin risk management and help to protect an organisation's reputation. We note that in Financial Rule 13.10, the ILO has provided for any case of fraud or presumptive fraud to be reported to the Director-General through the Treasurer and the Chief Internal Auditor; and Rule 14.30 allows for concerns to be reported in confidence and without repercussion to the Chief Internal Auditor, which reflects good practice. The Collective Agreement on Conflict Prevention and Resolution, together with HRD Circular Series 6, Number 649, also provide an independent mechanism to which staff can make reports confidentially.
65. The last review of these arrangements was undertaken in 2003, and we understand a more comprehensive review is planned for 2006. Sound arrangements would ensure that staff are more regularly made aware of these arrangements to encourage them to bring forward valid concerns of misconduct or malpractice. By encouraging staff to report valid

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concerns, the ILO can more effectively manage risk and reinforce management's commitment to preventing impropriety. The ILO may wish to note that it is accepted practice in many member States for concerns to be reported to an independent external party.

## Internal Audit

### *Introduction*

66. The Office of Internal Audit and Oversight (IAO) provides assurance to the Director-General and therefore to the Governing Body, on the effectiveness and operation of the ILO's systems of internal control and financial management. The IAO therefore provides assurance which forms an integral part of the governance arrangements of the Organization. In this context, we reviewed the effectiveness of ILO's internal audit arrangements against professional practice standards as laid down by the Institute of Internal Auditors. We considered IAO's scope of activity; independence; level of staff resourcing; planning processes; and reporting and follow-up procedures.

### *Scope and independence*

67. We were satisfied with the arrangements to secure the independence of the IAO and that its mandate, established by Article XIV of the Financial Rules and described in Circular Series 2 (Organization) No. 11, met appropriate professional standards. In addition to the requirement to review internal controls and to investigate misuse of funds, the mandate of IAO also includes reviewing the effective, efficient and economical use of resources. We believe therefore that there is some overlap in IAO's mandate with the work of the Evaluation Unit, which separately reports to the Executive Director of the Management and Administration Sector in relation to programme effectiveness. There is scope to consider closer liaison between IAO and the Evaluation Unit, which could help both functions to enhance assurance on the effective use of resources. Many UN organisations have combined these functions within a single office of internal oversight, to ensure greater coherence in the process of evaluation and audit and to enhance the profile of these assurance arrangements.

***Recommendation 17: We recommend that consideration be given to ensuring closer liaison between the evaluation and internal audit functions.***

### *Staff resourcing*

68. The Office of Internal Audit and Oversight currently comprises a Director, three professional grade audit staff and one administrative support officer, a level of resource which has remained static over the last 20 years. Over this period, and in particular in recent years, there has been an increase in stakeholders' expectations in relation to the assurance provided by internal oversight. This, combined with demands arising from more complex IT systems and increases in the level of investigatory work, has increased pressure on staff resources. We believe that the retirement of the present Chief of Internal Audit provides an opportunity to undertake a more in-depth and comprehensive assessment of audit needs.
69. The last such assessment was carried out in 2002, to cover the period to the end of the 2004-2005 biennium. We understand that a new and more comprehensive assessment is to be undertaken this year, to cover the period to the end of 2008-2009. We would encourage a more regular analysis of audit needs using a zero-based approach to identify all necessary audit tasks and coverage. The assessment should also establish the level of staff resources and professional skills necessary to deliver an adequate level of assurance. This review

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should assess the need for IT audit expertise to provide assurance over the operations of the new IRIS system, an area of competency for which the unit is not presently well-resourced.

70. A significant level of resource is currently being assigned to non-routine investigation work, which IAO estimated at 288 days over the biennium. The level of investigations combined with training, administration, leave and other non-core activities has significantly reduced the available time and resource to provide assurance over the full spectrum of the Organization's internal control environment. A regular assessment should be carried out to establish whether IAO has a sufficient level of experienced staff resources to provide the necessary degree of assurance to the Director-General.

***Recommendation 18: We recommend that the IAO communicate to the Director-General a comprehensive assessment of audit needs to identify the level of skills and resources to deliver an effective and comprehensive audit programme. We also recommend that IAO consider the need for and acquisition of an increased level of specialist IT audit skills to support the audit of internal controls, particularly in relation to IRIS.***

#### *Internal Audit planning*

71. The preparation of a documented, risk-based planning assessment is the most effective way of utilising limited resources and demonstrating adequate and effective coverage of internal controls. We reviewed a planning document which identified the resources to be dedicated to specific risks identified from IAO's risk assessment, based primarily on findings from previous audit work.
72. In our view there is scope to develop an improved and more systematic risk assessment process which would better demonstrate that all relevant areas of internal control are taken account of in audit planning. We were informed that this is in the process of being planned by IAO. We would encourage IAO to ensure that this is included as part of the planning process for the 2006-2007 biennium, which is currently underway. The audit plan is submitted to the Director-General but there is no procedure for approval or endorsement of the audit plan. We would recommend that the Director-General should approve or endorse the plan as a means of confirming that he has sufficient and appropriate audit coverage in place to discharge his responsibilities for internal control. Notwithstanding the necessary independence of internal audit, in the absence of an Audit Committee, review by the Director General is important to provide some oversight of the IAO planning process and the utility of the internal audit function.

***Recommendation 19: We recommend that a more comprehensive risk based audit plan is produced for each biennium and that this is formally accepted or approved by the Director-General to confirm his satisfaction on the level of internal audit assurance being delivered.***

#### *Reporting and follow-up*

73. We welcome the production of an annual report which provides an overview of audit activity each year. During the last year, audit reports primarily covered procurement, the audit of four field offices, and the audit of two technical co-operation projects. A clear process of review has taken place, and this will be enhanced further by developments in electronic audit support tools, which will further enhance the clarity of evidencing, documentation and review.

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74. We understand that the Chief Internal Auditor is commissioning the Institute of Internal Auditors to undertake a quality assurance review of the internal audit function. We welcome this initiative and encourage IAO to act on any recommendations which emerge. This process will provide assurance to both the Director-General and the Governing Body on the adequacy and effectiveness of IAO.

*Recommendation 20: We recommend that IAO take forward the planned independent quality assurance review and consider any emerging recommendations for improvement.*

### **External collaborator and short-term contracts**

- Overview of the use of external collaborators and short-term contract staff by the ILO
- Survey of contract types and usage in 2003-2004
- Observations and recommendations to enhance arrangements by:
  - maximising efficiency and effectiveness; and
  - monitoring and controlling the use of contracts.

### **Introduction and background**

75. All persons employed by the ILO should be engaged in accordance with the Organization's relevant rules and procedures. These procedures provide a framework of assurance for the use of resources and to ensure equity in the recruitment of staff. The ILO uses a number of different contracts to provide for staffing needs. These contract types reflect the different activities and locations which require resourcing and include permanent (without limit of time), fixed term, short-term, special short-term (less than 25 weeks) and external collaborator contracts.
76. The Report of the External Auditor on the 1996-1997 biennium recommended that employment contracts should reflect the nature and conditions of the work to be undertaken. Since this report, we have continued to identify cases of inappropriate use of external collaborators and staff contracts in the course of our audit, in Headquarters and particularly in field offices. These findings led us to carry out a more detailed analysis of the use of contract types during the 2004-2005 biennium.
77. We estimate that during the 2004-2005 biennium the ILO spent more than US\$70 million on short-term, special short-term and external collaborator contracts. Non-permanent staff resources provide useful flexibility to the ILO, particularly in areas such as translation, interpretation services and IT. However, if used inappropriately, for example with the same individuals over sustained periods of time, such contracts have the potential to give rise to litigation or claims for compensation in lieu of the entitlements staff would have received under a more appropriate contract arrangement. There is also a reputational risk that inappropriate use of these contracts could damage perceptions of the ILO as a best practice employer.

### **Methodology of the review**

78. As part of our analysis we requested and collated data on the use and frequency of external collaborator and short term-contracts. We circulated a questionnaire to identify the way in which external collaborators were used by Headquarters, the Human Resource Development unit (HRD) at Headquarters, and field offices. To our knowledge this was the first comprehensive collection and analysis of data on the use of such contracts by the ILO.

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We received completed questionnaires from more than 85 per cent of field offices and from HRD for Headquarters. We supplemented this data with further analysis based on findings from audit tests conducted as part of our field office and Headquarters audits.

79. We analysed the data to assess compliance with relevant rules and procedures, and to consider the classification of the contract type. We collected information on some 6,500 external collaborator and 5,000 short-term contracts issued by the ILO between January 2003 and December 2004. We analysed this period to ensure that we had accurately captured the use of consultants over a full two year period. We believe that our findings for this period are fully representative of the way in which consultants continue to be used by the ILO, which is corroborated by our wider audit experience during 2004-2005.

#### Use of external collaborator and short-term staff contracts

80. According to ILO procedural requirements (Circular 6/11, Revision 4), an external collaborator contract should only be used where there is a need for a specific and well-defined task to be carried out with a definite end-product. Typical examples would be a research study, report, translation, or a well specified task of an advisory nature. An external collaborator contract should also exclude the provision of services or facilities by the ILO.
81. Where the assignment is similar in nature to work performed by other ILO staff and relates to work conducted at ILO premises for a period of less than one year, the work should be covered by short-term contracts. In July 2002 ILO introduced a specific limitation on the length of short-term contracts, which prohibited re-employment for at least six months after a contract reached 364 days in a two year period. Where contracts are not expected to exceed five months and three weeks in any 12 month period, special short-term contracts can be used.
82. We identified from our analysis that some 15 per cent of individual external collaborator contracts did not fully comply with the applicable framework and established procedures. Many of these non-compliant contracts were for ongoing tasks for work similar to that undertaken by ILO staff, where a short-term staff contract would have been more appropriate. We also identified a number of external collaborator contracts where ILO resources had been provided, including office space, facilities and services.
83. We found that in one third of the short-term contracts analysed, the ILO had used the same person more than once, with no or only very short time intervals between repeat contracts. We identified six cases where the same persons had received more than 30 contracts during 2003 and 2004, and nearly 100 cases of the same persons being employed more than 10 times in this period.
84. The frequency of issuing new contracts to the same person creates a significant administrative burden in addition to increasing the risk that the applicable time limitations may be exceeded. There may be scope to consider alternative contracting arrangements to cover repeated requirements, such as with translators who are used frequently and for short periods of time. The ILO may wish to consider outsourcing these requirements or establishing call-off contracts to meet these needs. This would reduce the administrative burden and improve compliance with relevant ILO rules and procedures.

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***Recommendation 21: We recommend that the Human Resources Development unit, HRD, should be more active in ensuring adherence to current rules and regulations on the use of external collaborator and short-term contracts throughout the Organization. HRD should also consider re-issuing guidance on the use of these contracts, and ensure that any exceptions are critically reviewed and endorsed by senior management.***

***Recommendation 22: We recommend that the ILO consider whether there could be benefits in reduced administrative costs from the use of alternative contracting arrangements, such as outsourcing or call off contracts, to cater for staff – typically translators – who are frequently engaged for short periods of time.***

#### Efficiency and effectiveness of external collaborators

85. External collaborators can fulfil a very useful role in the delivery of the activities and objectives of the Organization. It is important, however, that the effectiveness and impact of their work is monitored and evaluated to ensure that the ILO has received value for money. We found from our review that only half of the ILO's field offices regularly carried out any detailed post-contract evaluation of the effectiveness and value of the work of external collaborators. A successful and informative evaluation on a case basis would assess the overall effectiveness and value of the tasks performed; and would consider this in the context of the fees paid to the external collaborators. A cost-benefit review of this nature would serve to inform future contracting decisions and provide a mechanism to ensure value for money.
86. External collaborators prepare many thousands of reports, translations and other documentary outputs each biennium at Headquarters and field offices. From our experience in reviewing these contracts, we have identified that many of the services provided are of a similar nature and content. As a result we have identified that there may be wider benefits available to the ILO by disseminating these outputs more widely, in order to share good practice and project observations, particularly between Headquarters and the field. The ILO does not currently have any formalised arrangements for knowledge sharing through the dissemination of outputs from contract staff or external collaborators, although we noted some informal sharing of information and knowledge between certain field offices within the same region. We believe there might be benefits for the ILO in improving the existing arrangements to encourage more effective information management and sharing of knowledge.
87. In more than half the field offices visited for audit purposes this biennium, we identified cases of external collaborators having commenced their specified tasks prior to formally signing a contract. We also found evidence of payments made to external collaborators prior to any substantial completion of work. Such practices do not follow the established procedures of the ILO and weaken the ability of management to ensure the efficient and effective use of resources.

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***Recommendation 23: We recommend that the ILO should establish consistent criteria for evaluating the performance of external collaborators.***

***Recommendation 24: We recommend that the ILO takes a more strategic approach to ensure that the outputs of external collaborator work are shared more widely to maximise their benefits and to avoid duplication of activities.***

***Recommendation 25: We recommend that the ILO takes steps to ensure that established procedures are followed in relation to the engagement and payment of external collaborator services, and that payments in advance of services rendered are avoided.***

## Control and monitoring of contracts

- 88.** The ILO does not currently maintain a database to evaluate the work of external collaborators to facilitate an assessment of the quality of services rendered. A database of this nature would enhance value for money by identifying potential alternative candidates for tasks, providing greater assurance on quality, and increasing competition to minimise costs. During our audit of field offices we identified a number of cases where the documented justification for the selection of individual external collaborators was generic, without details of the selection processes or evidence of consideration of alternate candidates. Although competitive bidding is not explicitly required for external collaborator contracts with individuals, failure to fully consider potential alternatives could give rise to the risk that the ILO may not obtain best value for money.
- 89.** During 2004-2005, HRD reviewed details of external collaborator contracts provided by individual field offices to assess compliance with relevant ILO rules and procedures. While welcoming this positive oversight by management, we noted that the information provided to HRD was not always sufficient to determine if the contracts were in compliance with administrative requirements. Similarly, the persistent re-employment of individuals on short term contracts was not always obvious from the contract details reviewed centrally by HRD. The implementation of IRIS could provide an opportunity to introduce cost-effective monitoring of the use of external collaborators and contract staff. This would provide greater assurance that funds are being used in accordance with the existing rules of the ILO; and would enable management to identify and focus on specific problem areas.

***Recommendation 26: We recommend that the ILO consider the establishment of a database of external collaborator evaluations, to identify high quality work and to increase the possibility of encouraging competition to ensure that best value is achieved.***

***Recommendation 27: We recommend that the ILO investigate the potential use of IRIS in providing an effective monitoring control through standard exception reporting.***

## Financial matters

### Maintenance of accounting records

- 90.** While IRIS presents the ILO with an opportunity for improved financial and management controls, we would stress the importance of ensuring that the necessary resources, including IT and analytical skills, are made available to support the demands of the new system and to maximise its functionality. While IRIS offers the opportunity for

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management to obtain greater control, these skills are necessary to ensure that data can be extracted and used effectively.

- 91.** It is an essential part of financial management and internal control that accounting records be properly maintained and that amounts in the general ledger are properly reconciled to the underlying records. The maintenance of these records is critical to ensuring an accurate and regular analysis of the financial position of the Organization. In a period of challenges from data transfer requirements and the burden of the new system, a number of financial records remained un-reconciled for a significant period of time after April 2005. As part of our final audit, we confirmed that the accounting records had been adequately reconciled at the year end and that the financial statements fairly presented the Organization's accounting records and financial results.

#### *Bank reconciliations*

- 92.** Bank reconciliations are a fundamental financial control to validate the completeness and accuracy of the accounting records, and are an essential procedure to help management prevent and detect fraud or error. During 2005 the ILO faced a number of difficulties from the operation of the interface between the Oracle cash management system and the automated bank transaction listing supplied by the ILO's bankers. Consequently the ILO was unable to fully reconcile its main Headquarters bank accounts for a period of some eight months. These accounts were eventually reconciled for the period to December 2005 and were sufficient to support our audit opinion.
- 93.** In our view bank reconciliations should be performed for all bank accounts on a timely and regular basis, to confirm that receipts and payments are matched to the financial records and to enable management to investigate any un-reconciled items. All bank reconciliations should be subject to review, to ensure that reconciliations are timely, accurate and performed on a regular basis. As a result of the weaknesses in the bank reconciliation process, we are of the view that the ILO's internal controls were weakened for a significant period of 2005. Our substantive audit testing was increased to compensate for this deficiency and we carried out a detailed review of the eventual reconciliations of these accounts.

#### *Field accounting records*

- 94.** One of the key objectives of IRIS is to improve the integration between ILO's field offices and Headquarters. In our audit visits to the field, we identified a lack of reconciliation between local records and the general ledger in relation to suspense accounts and advances. Following the replacement of the legacy system which preceded IRIS, field offices were unable to obtain analyses from the general ledger at Headquarters to confirm the accuracy of their local records. In the absence of the wider implementation of IRIS, field offices continue to use the Financial Integrated Systems for External Offices (FISEXT) as the basis for their local financial records. Transactions from the field are uploaded on a monthly basis from FISEXT into IRIS through an electronic data interface. We obtained a sufficient level of assurance to support the presentation of the financial statements but we believe it is essential for the ILO to ensure that field offices are able to efficiently reconcile local account balances and underlying records with the balances held in the general ledger.

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***Recommendation 28: We recommend that the ILO ensure regular and timely reconciliation of all bank accounts and that these should be subject to evidenced review by an appropriate level of management.***

***Recommendation 29: We recommend that management develop an appropriate procedure to enable field offices to reconcile local accounting records to the main general ledger.***

#### Verification of expenditure

95. The ILO carries out verification procedures on the financial records of field offices, which we consider to be a valuable element in the Organization's internal control arrangements. This control is performed by regional verifiers who check samples of the monthly imprest reports from the field accounting system in their region; and by verifiers in Headquarters on the Regional Offices. At the start of each biennium, the Treasurer and Financial Comptroller approves a risk-based work plan for the regional verifiers to ensure that an appropriate level of assurance is provided to management.
96. As a result of the increased work load associated with the implementation of IRIS and the need to reconcile bank balances, verifiers at Headquarters were prudently used to support the reconciliation of the ILO's bank accounts. In consequence verification work performed by Headquarters verifiers who are responsible for checking ILO Regional Offices did not achieve the planned level of assurance work in the period after July 2005. Further, we noted inadequate verification coverage in the Regional Office for Africa (covering all ILO offices in the Region) due to continued security concerns in Abidjan and relocation to Addis Ababa. While recognising the circumstances which gave rise to the reduced verification programme, it remains the case that during a significant period of 2005 the quality and coverage achieved did not provide management with the required level of assurance from field transactions checked in Headquarters and Africa, increasing the potential for error or fraud to remain undetected.

***Recommendation 30: We recommend that the ILO review its contingency arrangements and management oversight to ensure that sufficient resources remain available to deliver an appropriate level of verification activity.***

#### Suspense accounts and staff advances

97. Following observations made in the previous External Auditor's Report, we welcome the reduction in the level of field office suspense account balances, which decreased from US\$2.1 million in the previous biennium to US\$1.2 million at 31 December 2005. Approximately 60 per cent of this balance related to the Africa Region and although this represents a reduction on the previous year, we continue to stress the importance of keeping these balances to an absolute minimum.
98. The ILO provides staff with advances to cover a variety of expenses which are reimbursable under the Staff Regulations. These include advances for mission travel, education grants and mobility and hardship allowances. At 31 December 2005, outstanding staff advances amounted to US\$9.1 million, an increase of US\$0.6 million compared with the previous biennium.
99. As we have reported before, the majority of staff advances relate to outstanding education grant advances. In accordance with ILO's accounting policies, these advances are treated as expenditure when evidence of the provision of education services is provided by the eligible staff member. The ILO were unable to provide analysis of the ageing of this

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balance, and we would encourage that in future this analysis is provided to aid review of the account balance.

***Recommendation 31: We continue to recommend that ILO keep the level of suspense account balances under review. We also recommend that ILO carry out a review of staff advances to ensure that account balances remain valid and that advances are being actively managed.***

***Frauds, ex-gratia payments, amounts written off and contingent liabilities***

- 100.** The ILO notified us of ex-gratia payments totalling US\$302,994.09 (compared with US\$804,983.33 in 2002-2003); and writes-off against the Regular Budget of US\$886,031 (US\$100,000 in 2002-2003). The ILO provided explanations for all the cases notified and we are satisfied that it has taken proper account of the full circumstances of each case.
- 101.** The ILO notified us of 12 cases of fraud, attempted fraud or presumed fraud (compared with seven in 2002-2003), involving approximately US\$30,000 of ILO funds (US\$30,000 in 2002-2003). Three cases involved fraudulent health and compensation claims and five cases involved falsified financial records. Our audit did not identify any additional cases of fraud, and we are satisfied from our review of the cases notified to us that appropriate action is being taken by management.
- 102.** ILO informed us of 11 pending legal cases in respect of which claims could arise against the ILO. The ILO has estimated the maximum potential liability in these cases to be approximately US\$469,850 (including US\$57,000 for cases outside the ILO Tribunal) as at 31 December 2005.

## **Follow-up to previous audit recommendations**

- 103.** As part of our audit work we review the extent to which management have implemented and addressed our previous recommendations. In carrying out this work we made enquiries of management and also reviewed their report to the March 2005 Governing Body session on the follow-up to the Report of the External Auditor for 2002-2003 (GB.292/PFA/4).
- 104.** The Report of the External Auditor on the accounts for 2002-2003 included recommendations and observations relating to the implementation of the ILO's Integrated Resource Information System (IRIS), the human resources strategy, and property management. Under financial matters, we included recommendations on suspense accounts, staff advances and the maintenance of inventory records. Annex 2 to this Report includes the responses made by management to each of the recommendations in the 2002-2003 Report of the External Auditor, together with our comments on the action taken by the ILO towards addressing these recommendations. We have also commented below on the extent to which the ILO has successfully implemented our recommendations.

## **On management matters**

### ***Review of Project IRIS***

- 105.** In our Report on the 2002-2003 biennium we reported on the progress of Project IRIS. We made a number of observations and recommendations and identified potential risk areas for the project. In particular, we recommended that the knowledge of the new systems built up in the IRIS Project Team should be transferred effectively to the permanent staff of the

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ILO; that the ILO should incorporate the need for future support and upgrades of IRIS into an Information Technology Strategy; and that individual user needs should be identified and training provided to all IRIS users prior to live running of the system.

- 106.** We have noted the progress made by the ILO towards addressing our recommendations during the challenging implementation of IRIS during 2005. We have again made observations and recommendations in this present, some of which again emphasise the importance of these key project risk areas. The ILO should continue to consider these areas as it moves towards implementation of Project IRIS at field offices.

### ***Property management strategy***

- 107.** We made recommendations on a number of issues related to property management. We recommended that the ILO should urgently complete its compilation of comprehensive information on the Organization's property portfolio, and that this should form the basis for developing and implementing an overall accommodation strategy to meet business needs. We also identified the need to consider and review all available funding sources for capital projects.
- 108.** We are pleased to note that the ILO has completed the property survey; data has been shared with the Governing Body and is being used in the development of an accommodation strategy; and the ILO is reviewing funding for Headquarters' repairs and refurbishment.

### ***Human resources strategy***

- 109.** In our previous report we highlighted issues arising from the implementation of the Human Resources Strategy and we have continued to monitor ILO's progress. In previous years we had noted delay in the process of implementation; however we have been encouraged by the development of a more concise strategy (GB.292/PFA/17) which focuses on key areas and provides a more realistic strategic framework to facilitate efficient and effective implementation. We particularly welcome and encourage the link between resources and performance targets, which can be monitored by the Governing Body. We would encourage the Governing Body to annually review the performance targets established in the Strategy to ensure they continue to be relevant and challenging.
- 110.** The Strategy provides a focus for establishing the delivery of a performance assessment system for ILO staff, and for creating a business-focused training plan which would also serve to support the ILO's move towards results-based management. As we have previously reported, we regard these areas as essential to support the achievement of the Organization's objectives and we have noted the ILO's commitment to delivery during the 2006-2007 biennium. We have previously reported on the need to ensure that HRD has a sufficient level of skilled professional resource to meet the challenges of implementing the Strategy. We continue to believe that this should be a priority and a failure to address this could lead to further delay in the full implementation of the Strategy.

### **On financial matters**

- 111.** In our audit of the 2002-2003 Financial Statements we noted a significant increase in the value of items recorded under suspense accounts; and we raised issues relating to the completeness of ILO inventory returns, noting the receipt of only 19 out of 45 inventory returns from field offices. We are pleased to note the reduction in suspense balances during 2004-2005, although we would urge management to continue efforts to reduce these

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further; and that the ILO received inventory returns for Headquarters and all external offices at the end of the 2004-2005 biennium.

## **Acknowledgement**

**112.** We wish to record appreciation for the co-operation and assistance provided by the Director-General and the staff of the International Labour Office during our audit.

*(Signed)* Sir John Bourn,  
Comptroller and Auditor General, United Kingdom  
External Auditor

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## **Annex 1**

### **Scope and Audit Approach**

#### ***Audit scope***

The audit covers the examination of the financial statements of the International Labour Organization for the financial period ended 31 December 2005 in accordance with the Financial Regulations.

#### ***Audit objectives***

The main purpose of the financial audit was to enable us to form an opinion as to whether expenditure recorded in the financial statements for 2004-2005 had been incurred for the purposes approved by the International Labour Conference and Governing Body; whether income and expenditure were properly classified and recorded in accordance with the Financial Regulations; and whether the financial statements fairly presented the financial position at 31 December 2005.

#### ***Audit standards***

Our audit of the Organization's financial statements was carried out in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, and with International Standards on Auditing. These standards require us to plan the audit so as to obtain reasonable assurance that the Organization's financial statements are free of material misstatement. The Organization's management were responsible for preparing the financial statements and we are responsible for expressing an opinion on them, based on evidence collected in the audit.

#### ***Audit approach***

The examination was performed on a test basis, in which all areas of the financial statements were subject to substantive testing of the transactions recorded. Finally an examination was carried out to ensure that the financial statements accurately reflected the ILO's accounting records and were fairly presented.

This audit examination included a general review of the Organization's accounting procedures; a broad assessment of internal controls; and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. Our audit procedures are designed primarily for the purpose of forming an audit opinion. Consequently, the work did not involve a detailed review of all aspects of the ILO's budgetary and financial information systems and the results should not be regarded as a comprehensive statement on them.

During the biennium we carried out financial audits at ILO Headquarters and also at eleven ILO field offices in Asia, Africa and the Americas. We prepared separate reports to management on each of the field offices we visited during 2004-2005 together with recommendations to improve financial control in the ILO.

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
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#### Review of the ILO's Integrated Resource Information System (IRIS)

<p><b>Recommendation 1:</b> I recommend that the ILO ensure that comprehensive knowledge transfer protocols are established to maintain the effective post implementation support of IRIS.</p>	<p>Knowledge transfer from external consultants to ILO officials continues to be a priority and a concerted effort has been made to maximize the number of future IRIS users directly and indirectly involved in project activities such as testing and validation, as well as becoming full-time members of the team. A number of future users were assigned on a part-time basis to the project, for regular periods each week, which has facilitated participation. A "change leader" network was established within the user communities to identify and encourage candidates for early participation in the project.</p> <p>System testing has been performed by up to 40 future users sitting side-by-side in open-space facilities with consultants and ILO team members. System validation has also been undertaken exclusively by ILO officials. Furthermore, dependence on external consultants has been reduced in a gradual and controlled manner. In February 2004, the primary contractor was supplying over 40 consultants to the team. This number was reduced to approximately 30 by April, and is now down to 6. The roles and responsibilities have either been completed, or have been taken over by ILO officials, or in some cases, independent consultants already working on the project.</p>	<p>We note the progress made by the ILO towards implementing our recommendation. We noted some loss of knowledge at the end of IRIS HQ implementation and would encourage management to ensure that knowledge is shared more widely outside the project team in respect of later phases of IRIS.</p>
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## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
	<p>The most notable example of both knowledge and managerial transfer was the handing over of responsibility for functional solution delivery from an external project manager to an ILO official in October 2004. A further initiative that enhances knowledge retention within the ILO is the revised training strategy that makes greater use of ILO officials as trainers rather than the previously planned external resources. This also lowers the overall cost of training.</p> <p>The combination of these initiatives will strengthen the ability of the ILO to be self-sufficient in post-implementation support.</p>	
<p><b>Recommendation 2:</b> I recommend that the ILO considers options for financing ongoing support costs including, for example, allocating an appropriate element to its programme support funds.</p>	<p>In November 2004, the Governing Body approved further funding to finance ongoing support costs in 2004-05 from exchange rate gains earned on the 2000-01 surplus. Programme and Budget proposals for 2006-07 have included the operating costs of IRIS. The three departments most involved in providing IRIS support, ITCOM, FINANCE and HRD, all receive an allocation from programme support income to support their activities.</p>	<p>We note the progress made by the ILO towards implementing our recommendation but our report has highlighted the need to consider future costs such as IRIS field implementation and the funding for future IRIS upgrades.</p>

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
<p><b>Recommendation 3:</b> I recommend that the ILO expands its existing IT strategy to include the post roll-out phase of IRIS and specifically for the inevitable upgrading of its software to keep pace with the market; this should include plans for the timing of upgrading and the identification of funding sources for such further upgrades to inform future budget proposals to the Governing Body.</p>	<p>In order to address the points raised in this recommendation, a “Total cost of ownership” study was commissioned by the IRIS project sponsor in April 2004. The results were delivered in September 2004 and include scenarios for both minor (regular, incremental) and major software upgrades at distinct intervals.</p> <p>The study formed the basis of the calculations for funding the transitional phase from the 2004-05 and the 2006-07 Programme and Budget proposals. The Director-General has also included a proposal to provide for future major IT investments through transfers from the regular budget to the Information Technology Systems Fund.</p> <p>The integration of the study’s recommendations into an overall IT strategy will form part of the larger picture of how IRIS follows its natural evolution from being a stand-alone project to becoming an integral part of the information management structure in the ILO.</p>	<p>We note the progress made by the ILO towards implementing our recommendation and encourage the development of this Strategy with the oversight of the PFAC IT and Communications Sub-Committee.</p>
<p><b>Recommendation 4:</b> While this parallel running of systems can be expensive and time consuming, I consider it to be particularly important in ensuring systems are performing as expected and I urge the ILO to undertake this form of testing wherever practicable.</p>	<p>In early October 2004, payroll testing began using personnel data and payroll outputs from April to June 2004 as a benchmark. This testing was conducted to ensure the accuracy of the IRIS payroll versus the actual payroll results from the same period. This testing was completed successfully. In addition to this retrospective payroll parallel, IRIS ran a true payroll parallel in February and March 2005 as the system transitions into full operation to further ensure the accuracy of the new payroll system.</p>	<p>We note the progress made by the ILO towards implementing our recommendation. We have included observations and recommendations in this Report on user acceptance testing and encourage the approach adopted by the ILO in respect of the testing of payroll systems.</p>

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
<p><b>Recommendation 5:</b> I recommend that the ILO ensures that all data for conversion be identified and cleansed as a priority to minimize the risk of processing failures or rejections after the system is implemented.</p>	<p>Data cleaning commenced in late 2003. This is an ongoing process and, together with data conversion, is being run as a distinct sub-project of IRIS with dedicated resources. Conversions are being tested in a series of “mock” conversion runs in order to identify and solve issues before the final conversion is performed. Computer programs have been and are being written to perform cleansing, where possible, during the conversion, while the help of future user communities has been solicited to perform manual cleansing where appropriate.</p>	<p>We note the progress made by the ILO towards implementing our recommendation, our audit obtained sufficient assurance in relation to the transfer of data to support our opinion.</p>
<p><b>Recommendation 6:</b> I recommend that prior to implementation in the field, management undertake cost benefit exercises to establish the efficiencies to be gained from the extension of project IRIS to users in the Regional Offices and other ILO offices worldwide.</p>	<p>Field implementation of IRIS will not take place before the system has stabilized in headquarters and, in any case, not before 2006.</p> <p>A cost-benefit exercise will take place beforehand and furthermore it is intended that this exercise will include a complete analysis and rationalization of field-to-headquarters business processes.</p>	<p>We note the progress made by the ILO towards implementing our recommendation. Our report recommendations this year make various references which relate to the next phases of implementation. We would encourage management to ensure that the IRIS Field Implementation team undertake a clear cost benefit analysis of the efficiency benefits against the costs and risks of implementation in the field.</p>

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
<p><b>Recommendation 7:</b> I recommend that the ILO undertake a full process review to identify the impact on work practices and individual staff positions as a result of the implementation of project IRIS. This review should identify realistic post savings as a result of the changed technology and also new posts required as a result of the implementation of IRIS.</p>	<p>It is recognized that this exercise is necessary in order to reap the full benefits of IRIS. As a precursor to a complete Business Process Re-engineering (BPR) study, a task force has been set up by the Executive Director of Management and Administration Services to identify any immediate savings realizable through IRIS in its initial form. A number of efficiencies/savings have already been identified and incorporated within the 2006-07 programme and budget. As the new system stabilizes, and the BPR study is completed, further savings are expected.</p> <p>Other inputs to this study will include the process and role mapping exercises currently being conducted (see response to Recommendation 8 below).</p>	<p>We note the progress made by the ILO towards implementing our recommendation. We have included observations on the need for a comprehensive business process review and benefits measurement process in our Report this year.</p>
<p><b>Recommendation 8:</b> I recommend that the ILO should, as a matter of priority, identify the individual staff members who require training in each of the project areas and develop a detailed timetable to ensure their training prior to the planned “go-live” date of November 2004.</p>	<p>A comprehensive training plan is being set up by the change management team; with the help of the change leaders (see response to recommendation 1). Inputs to the plan include the future roles and responsibilities of officials which are being derived from the new process maps, the officials’ profiles, the modules they will be trained in, the instructors and subject matter experts that will be involved, and logistical details such as classrooms and equipment. All this information is being centralized in a training database that will be used to manage the training programme.</p>	<p>We note the progress made by the ILO towards implementing our recommendation and we continue to encourage the need for a clear analysis and identification of training needs to ensure that users are maximising the efficiency benefits of the IRIS system.</p>

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
<p><b>Recommendation 9:</b> Prior to implementation, I recommend that the ILO ensure that all staff members have the opportunity to attend awareness-raising seminars and training detailing the capabilities of IRIS.</p>	<p>In April 2004, an IRIS communications strategy was developed and implemented to address awareness for IRIS pending the development of detailed information sessions and a comprehensive training programme. In all, seven introductory orientation sessions were held in May and June 2004, including a special session during the June Conference. These sessions answered the basic questions of IRIS' identity, aims and timetable.</p> <p>In September, two series of 12 information sessions were held over a period of four days each, covering all the major business processes. All sessions have been well attended, with audiences of up to 100 at a time.</p> <p>As field roll-out occurs, a similar process will be undertaken in the regions.</p>	<p>We note the progress made by the ILO towards implementing our recommendation.</p>
<p><b>Recommendation 10:</b> Furthermore, after the training needs have been fully identified, I recommend that the project should fully analyze the cost of the training and ensure that sufficient budget is made available.</p>	<p>The IRIS training programme is an integral part of the IRIS project and is budgeted as a sub-project within the project's planning and resource management tools. The training programme and budget has been re-analysed, and this new analysis was one of the driving factors behind the use of internal staff as trainers rather than external consultants (see also response to Recommendation 1).</p>	<p>We note the progress made by the ILO towards implementing our recommendation.</p>

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
<p><b>Recommendation 11:</b> I recommend that the ILO establish, promote and enforce a comprehensive IT security policy, with procedures and controls to ensure that all of the ILO's information systems are protected from unauthorized access.</p>	<p>The implementation of an ILO-wide IT security policy is currently under discussion. In the meantime, IRIS is working to implement a comprehensive security strategy for the new system. As regards access rights within the system, the IRIS technical team, together with the change management team, have identified which roles, and therefore which users, should have access to data and modules within the system. This is also being cross-checked with the change leader network and will be finally validated with management. At the same time, the IRIS technical team is working with ITCOM as well as the technical infrastructure provider (outsourcing partner) to implement security at the server, database and telecommunications network levels and to ensure the integrity of the ILO's data.</p>	<p>We note the progress made by the ILO towards implementing our recommendation and encourage the formalisation of a clear policy and process to cover IRIS IT security.</p>
<p><b>Recommendation 12:</b> I recommend that the ILO completes its survey to ensure that it compiles a comprehensive appraisal of its current accommodation portfolio, in order to complete its accommodation strategy and inform future management and Governing Body decisions.</p>	<p>The survey has been completed and data has been shared with the Governing Body and is being used in the development of an accommodation strategy.</p>	<p>We are pleased to note that the ILO has completed this survey and is using this to develop an accommodation strategy.</p>

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
<p><b>Recommendation 13:</b> I recommend that the ILO review its sources of funding for major building refurbishments, which might include the options for attracting private financing or the establishment of a regularly funded reserve specifically for future renewals.</p>	<p>The Office agrees with this proposal. Funding for headquarters repairs and refurbishments is the subject of a major review by the Office although within the constraints of a zero growth budget, any significant increases in the financing of such a reserve will require a major reduction in programme activities. At the current session of the Governing Body, options for financing have been submitted to the Building Subcommittee. Field offices have been reminded of the need to ensure that their operating budgets include sufficient resources to cover routine maintenance costs. Further options were presented to the Building Subcommittee in November 2005 and the Programme and Budget Proposals for 2008-09 will include specific provisions.</p>	<p>We note the comments of the ILO and continue to encourage further action in this area.</p>
<p><b>Review of the implementation of the human resources strategy</b></p>		
<p><b>Recommendation 14:</b> I recommend that the process in involving line managers in HR developments should be continued and given priority in order that line managers play a greater role in implementing the HR strategy within the Office.</p>	<p>The Office recognizes the importance of involving line managers. Regular meetings have been held with line managers to inform them of developments in HR development. HRD has also had consultations with line managers and staff when developing new HR policies, such as job grading, classification and staff mobility. HRD will continue this consultative process in the future.</p>	<p>We welcome this action and encourage the ILO to continue to involve line managers in HR developments.</p>

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
<p><b>Recommendation 15:</b> I recommend that a new staff appraisal system be the next priority and be implemented by the end of the current biennium.</p>	<p>HRD has begun work to evaluate the current appraisal systems. This has involved a benchmarking exercise to identify good practice in this area. A policy paper has been prepared for submission to senior management prior to consultation with line management and the Staff Union. This outlines proposals for changes in the current performance management system. The relationship of the personal development plan process to a revised system will be reviewed in that context.</p>	<p>We welcome work undertaken by HRD in evaluating the current appraisal system and encourage the ILO to proceed with developing a new staff appraisal system which meets business needs.</p>
<p><b>Recommendation 16:</b> I recommend that cost benefit exercises are undertaken by HRD for all current and future areas of the human resources strategy to be implemented, to ensure an efficient prioritization of resources allocated.</p>	<p>The HR strategy paper currently before the Governing Body outlines the Office's proposal for a revised HR strategy, which will be undertaken within the normal allocations made available to HRD under the biennial programme and budget process</p>	<p>We welcome the response of the ILO but still recommend that HRD perform cost-benefit exercises for current and future areas of the human resources strategy to ensure prioritisation of the resources allocated under the normal biennial programme and budget process.</p>
<p><b>Financial matters</b></p>		
<p><b>Recommendation 17:</b> I recommend that the ILO fully analyses its suspense accounts during, and at the end of each financial period, to ensure that all expenditure incurred is properly brought to account.</p>	<p>The analysis of suspense accounts is an important and ongoing activity. In June 2004 the Office requested all Regional Offices to carry out a comprehensive analysis of outstanding external offices suspense account balances and report their findings to FINANCE. The results of this analysis have enabled a large number of balances to be cleared.</p>	<p>We welcome the review and action taken by the ILO in response to our recommendation and as indicated in our main report we encourage the ILO to continue with the analysis and clearance of all balances held in suspense.</p>

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
	<p>At the same time, the Office introduced a new reporting requirement for external offices that discloses the details of each suspense item that remains outstanding at the end of each month. This will assist external offices in ensuring that items in suspense are charged to expenditure within a reasonable limit of time and also enhances existing controls by Regional Offices and FINANCE over external office suspense accounts.</p> <p>It is inevitable that some suspense balances will exist, however, and this can be exacerbated by communications and security problems in individual offices.</p>	
<p><b>Recommendation 18:</b> I recommend that the ILO ensure that the long-outstanding education grants are cleared by the officials concerned and that the expenditure incurred is properly brought to account as a matter of priority.</p>	<p>The recording and clearance of education grant advances is, by its very nature, cyclical. As advances cover the full academic year, it is inevitable that balances will exist at the end of the biennium and that occasionally, due to delays in submissions or communications difficulties with educational establishments, further delays may occur.</p> <p>The Human Resources Department regularly follows up on outstanding education grant claims and, together with the Payments Authorization Section, carried out a full analysis of the education grant accounts which determined that, as of October 2004, only one advance of US\$5,000 remained outstanding. This case is being followed up with the educational institution concerned for the school year completed in 2003.</p>	<p>We are pleased to note the response of the ILO to our recommendation but as indicated in our Report, we recommend that the ILO reconciles these balances between the general ledger and the underlying records held by HRD.</p>

## Annex 2

### Action taken in response to the recommendations made in the Report of the External Auditor on the 2002-03 accounts

Recommendation	Response from ILO Management	External Audit Comment
	Furthermore, the submission deadline for education grant claims and the policy of payroll recovery of outstanding advances have been modified in an ILO circular dealing with education grants, in order to minimize long-outstanding balances in the future.	
<p><b>Recommendation 19:</b> I recommend that the ILO take steps to ensure that it receives inventory returns from all offices during and at the end of each biennium to ensure accurate disclosure of inventory held.</p>	<p>In April, 2004, the Treasurer issued a reminder to all external office directors, emphasizing the need for good financial and management discipline and referring specifically to the findings of the External Auditor concerning inventory returns and the importance of regular and timely physical checks. As the current biennium draws to a close, a further reminder will be sent and will be closely monitored by the Office.</p>	<p>We are pleased to note the progress made by the ILO and that HQ received inventory returns from all external offices at the end of the 2004-05 biennium.</p>

#### Follow-up of earlier recommendations

<p><b>Paragraph 103:</b> the Office of Internal Audit and Oversight (IAO)</p>		
<p>Preparation of an Internal Audit Manual</p>	<p>The ILO Internal Audit Manual was finalized at end of September 2004 and has been issued on CD-ROM</p>	<p>We are pleased to see that the ILO has introduced an Internal Audit Manual.</p>
<p>Use of an electronic audit package</p>	<p>A suitable electronic audit package has been identified, evaluated and implemented.</p>	<p>We are pleased to see that the ILO has implemented an electronic audit package although as identified in our Report.</p>

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### **3. Certification of financial statements**

The financial statements numbered I to IV and relevant schedules are approved.

*(Signed)* Gregory P. Johnson,  
Treasurer and Financial Comptroller.

31 March 2006.

*(Signed)* Juan Somavía,  
Director-General.

31 March 2006.

### **4. Opinion of the External Auditor**

#### **To the Governing Body of the International Labour Office**

I have audited the accompanying financial statements comprising Statements I to IV, the Schedules and Notes 1 to 32 of the International Labour Organization for the financial period ended 31 December 2005.

#### **Respective responsibilities**

These financial statements are the responsibility of the Director-General of the ILO as set out in Chapter VII of the Financial Regulations of the International Labour Organization. My responsibility is to express an opinion on these financial statements based on my audit performed in accordance with Chapter IX of the Financial Regulations.

#### **Basis of opinion**

I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency and conforming to International Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Director-General of the ILO, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

#### **Opinion**

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2005 and the results of the operations and cash flows for the period then ended in accordance with the United Nations System Accounting Standards and the International Labour Organization's stated accounting policies, set out in

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Part II of the general notes to the financial statements and schedules. These statements were applied on a basis consistent with that of the preceding financial period.

Further, in my opinion, the transactions of the International Labour Organization, which I have tested as part of my audit, have in all significant respects been in accordance with the Financial Regulations and Legislative Authority.

In accordance with Chapter IX of the Financial Regulations and the additional terms of reference governing external audit appended thereto, I have also issued a long-form Report on my audit of the International Labour Organization's financial statements.

*(Signed)* Sir John Bourn,  
Comptroller and Auditor General, United Kingdom  
External Auditor

National Audit Office  
London

28 April 2006.

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**5. Financial statements and schedules  
for the financial period 2004-2005**

**STATEMENT I : STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES**  
**(ALL SOURCES OF FUNDS)**  
for the biennium ending 31 December 2005  
(in thousands of United States dollars)

	GENERAL FUND								Other funds managed by the ILO (Schedule 2.1)		Extra-budgetary technical cooperation (Schedule 3.1)	
	Regular budget (Schedule 1.1.1)		Working Capital Fund Income Adjustment Account Capital funds relating to land and buildings (Schedule 1.1.2)		Other funds forming part of the General Fund (Schedule 1.1.3)		TOTAL					
	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03				
<b>INCOME</b>												
Assessed contributions for the financial period	529,596	434,041					529,596	434,041				
Voluntary contributions									601	524	328,808	247,862
Other/Miscellaneous income:												
Revenue producing activities					3,318	3,374	3,318	3,374	310	384		
Funds received under inter- organization arrangements					7,286	6,593	7,286	6,593	9,129	7,797	1,885	14,673
Allocations from other funds					34,315	27,085	34,315	27,085				
Income from services rendered			1,045	1,665	1,693	1,937	2,738	3,602	207	224	1,781	1,961
Investment income, including interest			(980)	22,284	2,583	18,968	1,603	41,252	1	138	(40)	136
Currency exchange adjustments			696	303	909	1,148	1,605	1,451	16	75	564	(7)
Other/Miscellaneous												
<b>TOTAL INCOME</b>	<b>529,596</b>	<b>434,041</b>	<b>761</b>	<b>24,252</b>	<b>50,104</b>	<b>59,105</b>	<b>580,461</b>	<b>517,398</b>	<b>10,264</b>	<b>9,142</b>	<b>332,998</b>	<b>264,625</b>
<b>EXPENDITURE</b>	<b>529,076</b>	<b>433,931</b>			<b>89,871</b>	<b>75,741</b>	<b>618,947</b>	<b>509,672</b>	<b>11,504</b>	<b>9,287</b>	<b>318,846</b>	<b>254,828</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>520</b>	<b>110</b>	<b>761</b>	<b>24,252</b>	<b>(39,767)</b>	<b>(16,636)</b>	<b>(38,486)</b>	<b>7,726</b>	<b>(1,240)</b>	<b>(145)</b>	<b>14,152</b>	<b>9,797</b>
<b>OTHER ADJUSTMENTS:</b>												
Revaluation of the budgetary surplus	12	40					12	40				
Reimbursement of Working Capital Fund for 2002-03 deficit financing	(11,423)	-					(11,423)	-				
Decrease(increase) in the provision for delays in the payment of contributions	(25,147)	(11,661)					(25,147)	(11,661)				
<b>NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>(36,038)</b>	<b>(11,511)</b>	<b>761</b>	<b>24,252</b>	<b>(39,767)</b>	<b>(16,636)</b>	<b>(75,044)</b>	<b>(3,895)</b>	<b>(1,240)</b>	<b>(145)</b>	<b>14,152</b>	<b>9,797</b>
Transfer of previous biennium's surplus (1)												
To IT Fund	-	(5,940)					-	(5,940)				
To Appropriation from 2000-01 surplus	-	(48,999)					-	(48,999)				
To Building and Accommodation Fund	-	(3,267)					-	(3,267)				
To undistributed surplus	-	(6,490)					-	(6,490)				
Revaluation of the surplus	-	3,529					-	3,529				
Total	-	(61,167)					-	(61,167)				
Adjustments to reserves & fund balances			10,907	9,776	-	58,206	10,907	67,982	(28)	(51)	(8,640)	(4,643)
Reimbursement of 2002-03 deficit financing			11,423	-			11,423	-				
Financing of deficit from:												
Working Capital Fund	26,222	11,511	(26,222)	(11,511)								
Income Adjustment Account	9,816	-	(9,816)	-								
<b>RESERVES AND FUND BALANCES BEGINNING OF PERIOD</b>	<b>-</b>	<b>61,167</b>	<b>110,856</b>	<b>88,339</b>	<b>114,024</b>	<b>72,454</b>	<b>224,880</b>	<b>221,960</b>	<b>10,997</b>	<b>11,193</b>	<b>109,805</b>	<b>104,651</b>
<b>RESERVES AND FUND BALANCES END OF PERIOD</b>	<b>-</b>	<b>-</b>	<b>97,909</b>	<b>110,856</b>	<b>74,257</b>	<b>114,024</b>	<b>172,166</b>	<b>224,880</b>	<b>9,729</b>	<b>10,997</b>	<b>115,317</b>	<b>109,805</b>

(1) At the 90th session (2002), the International Labour Conference decided in derogation of article 18.2 of the Financial Regulations, to retain 90% of the 2000-01 surplus (90,801,000 Swiss francs) for urgent priorities and time-bound investments, including a transfer of 8,850,000 Swiss francs to the Information Technology Systems Fund and 4,867,500 Swiss francs to the Building and Accommodation Fund.

**STATEMENT II - STATEMENT OF ASSETS, LIABILITIES, AND RESERVES AND FUND BALANCES (Note 15)**  
**(ALL SOURCES OF FUNDS)**  
as at 31 December 2005  
(in thousands of United States dollars)

	General fund			Other funds managed by the ILO (Schedule 2.2)			Extra-budgetary technical cooperation (Schedule 3.2)		
	2004-05	2002-03	References	2004-05	2002-03	References	2004-05	2002-03	References
<b>ASSETS</b>									
Cash and term deposits	228,992	279,100	Note 17	421	409		-	273	
Investments	58,282	61,771	Note 18	5,231	5,284	Note 18			
Accounts receivable:									
Contributions receivable from current member States and States which have ceased to be Members	133,400	109,085	Schedule 1.2.1						
Less provision for delays in the payment of contributions	(133,400)	(109,085)							
Interfund balances				4,170	5,306		128,215	113,713	
Other	16,691	15,780	Note 19	7	57		5,222	2,808	
Land and buildings (at cost)	132,887	130,109	Note 20						
<b>TOTAL ASSETS</b>	<b>436,852</b>	<b>486,760</b>		<b>9,829</b>	<b>11,056</b>		<b>133,437</b>	<b>116,794</b>	
<b>LIABILITIES</b>									
Contributions received in advance	16,901	11,442							
Borrowings payable within one year	2,826	2,848	Note 22						
Accounts payable:									
Unliquidated obligations	12,801	13,624	Note 23	83	59		212	753	
Interfund balances	123,762	119,019					8,622	-	
Other	7,017	2,297	Note 24	17	-		9,286	6,236	
Amounts payable to member States	4,372	4,789	Note 25						
Borrowings payable after one year	53,697	59,806	Note 22						
Special accounts	5,477	2,829	Note 26						
Funds held in trust (SHIF)	37,833	45,226	Note 27						
<b>TOTAL LIABILITIES</b>	<b>264,686</b>	<b>261,880</b>		<b>100</b>	<b>59</b>		<b>18,120</b>	<b>6,989</b>	
<b>RESERVES AND FUND BALANCES</b>									
Operating reserves				4,365	5,728				
Balances relating to projects funded by donors							115,317	109,805	
Working Capital Fund	-	15,412	Schedule 1.1.2						
Income Adjustment Account	21,545	27,989	Schedule 1.1.2						
Capital funds relating to land and buildings	76,364	67,455	Schedule 1.1.2						
Other	74,257	114,024	Schedule 1.1.3	5,364	5,269				
<b>TOTAL RESERVES AND FUND BALANCES</b>	<b>172,166</b>	<b>224,880</b>		<b>9,729</b>	<b>10,997</b>		<b>115,317</b>	<b>109,805</b>	
<b>TOTAL LIABILITIES, RESERVES AND FUND BALANCES</b>	<b>436,852</b>	<b>486,760</b>		<b>9,829</b>	<b>11,056</b>		<b>133,437</b>	<b>116,794</b>	

**STATEMENT III - STATEMENT OF CASH FLOW - GENERAL FUND**  
**for the biennium ending 31 December 2005**  
**(in thousands of United States dollars)**

	<u>2004-05</u>	<u>2002-03</u>	<u>References</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net excess/(shortfall) of income over expenditure	(75,044)	(3,895)	Statement I
(Increase) decrease in contributions receivable (1)	-	-	
(Increase) decrease in other accounts receivable	(911)	449	Statement II
Increase (decrease) in contributions or payments received in advance	5,459	2,463	Statement II
Increase (decrease) in unliquidated obligations	(823)	(4,783)	Statement II
Increase (decrease) in other liabilities	4,720	(293)	Statement II
Increase (decrease) in special accounts	2,648	(286)	Statement II
Increase (decrease) in funds held in trust (SHIF)	(7,393)	6,628	Statement II
Less: Investment income, including interest	(2,738)	(3,602)	Statement I
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>(74,082)</u></b>	<b><u>(3,319)</u></b>	
<b>CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES:</b>			
(Increase) decrease in investments	3,489	(10,216)	Statement II
Increase (decrease) in interfund balances payable	4,743	5,333	Statement II
Increase (decrease) in borrowings	(6,131)	8,802	Statement II
Plus: Investment income, including interest	2,738	3,602	Statement I
<b>NET CASH FROM INVESTING AND FINANCING ACTIVITIES</b>	<b><u>4,839</u></b>	<b><u>7,521</u></b>	
<b>CASH FLOW FROM OTHER SOURCES:</b>			
(Increase) decrease in land and buildings	(2,778)	(27,643)	Statement II
Increase (decrease) in credits payable to member States	(417)	(7,136)	Statement II
Transfer of 2000-01 surplus	-	(61,167)	Statement I
Repayment of 2002-03 deficit	11,423	-	Statement I
Other adjustments	10,907	67,982	Statement I
<b>NET CASH FROM OTHER SOURCES</b>	<b><u>19,135</u></b>	<b><u>(27,964)</u></b>	
<b>NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS</b>	<b>(50,108)</b>	<b>(23,762)</b>	
<b>CASH AND TERM DEPOSITS, BEGINNING OF PERIOD</b>	<b>279,100</b>	<b>302,862</b>	Statement II
<b>CASH AND TERM DEPOSITS, END OF PERIOD</b>	<b><u>228,992</u></b>	<b><u>279,100</u></b>	Statement II

- (1) Contributions receivable are offset by the 100% provision for delays in the payment of contributions. There is thus no net increase or decrease in contributions receivable.

**Statement IV - Status of regular budget appropriations for the financial period 2004-05  
(in thousands of United States dollars)**

<b>Title</b>	<b>Appropriation (1)</b>	<b>Expenditure</b>
<b>Part I. Ordinary budget</b>		
A. Policy making organs	65,079	63,602
B. Strategic objectives	397,927	396,941
C. Management Services	45,791	44,357
D. Other budgetary provisions	24,459	23,815
Adjustment for staff turnover	<u>(4,541)</u>	<u>-</u>
<b>Total Part I</b>	<b>528,715</b>	<b>528,715</b>
<b>Part II Unforeseen expenditure</b>		
Unforeseen expenditure	875	361
<b>Part III Working Capital Fund</b>		
Working capital fund	<u>-</u>	<u>-</u>
<b>Total (Parts I-III)</b>	<b><u>529,590</u></b>	<b><u>529,076</u></b>
<b>Total 2002-03</b>	<b><u>434,040</u></b>	<b><u>433,931</u></b>

(1) To improve the comparability of 2004-05 expenditure, appropriations have been adjusted to reflect the transfer of the postal budget and the resources for the Executive Director's Office, Regions as presented in the footnote to Information Annex I of the 2006-07 Programme and Budget.

**Schedule 1.1.1 - Income and Expenditure and Changes in Reserves and Fund Balances**  
**General Fund - (Regular budget)**  
**for the biennium ending 31 December 2005**  
(in thousands of Swiss Francs and United States dollars)

	2004-05				2002-03				References
	Budget		Actual		Budget		Actual		
	Swiss francs	US dollars	Swiss francs	US dollars	Swiss francs	US dollars	Swiss francs	US dollars	
<b>INCOME (1)</b>									
Assessed contributions for the financial period	709,658	529,596	709,658	529,596	768,253	434,041	768,253	434,041	(2)
<b>TOTAL INCOME</b>	<b>709,658</b>	<b>529,596</b>	<b>709,658</b>	<b>529,596</b>	<b>768,253</b>	<b>434,041</b>	<b>768,253</b>	<b>434,041</b>	
<b>EXPENDITURE (1)</b>									
Part I - Ordinary budget		528,715		528,715		433,165		433,165	(3)
Part II - Unforeseen expenditure		875		361		875		766	
<b>TOTAL EXPENDITURE</b>		<b>529,590</b>		<b>529,076</b>		<b>434,040</b>		<b>433,931</b>	
<b>EXCESS OF INCOME OVER EXPENDITURE BEFORE OTHER ADJUSTMENTS, AT BUDGET RATE OF EXCHANGE</b>				<b>520</b>				<b>110</b>	
<b>OTHER ADJUSTMENTS</b>									
Revaluation of the budgetary surplus				12				40	(4)
Reimbursement of 2002-03 deficit financing				(11,423)				-	(5)
Decrease (increase) in the provision for delays in the payment of contributions				(25,147)				(11,661)	(6)
<b>NET SHORTFALL OF INCOME OVER EXPENDITURE</b>				<b>(47,210)</b>				<b>(14,965)</b>	<b>(11,511)</b>
Financing of deficit from									
Working Capital Fund				34,351				14,965	11,511
Income Adjustment Account				12,859					
Transfer of previous biennium's surplus (Statement I)								(100,927)	(61,167)
<b>FUND BALANCES, BEGINNING OF PERIOD</b>				-				<b>100,927</b>	<b>61,167</b>
<b>FUND BALANCES, END OF PERIOD</b>				-				-	-

(1) US dollar income and expenditure figures result from the conversion of Swiss franc income and expenditure to US dollars at the budget rate of exchange (2004-05: 1.34 Swiss francs to the US dollar, 2002-03: 1.77 Swiss francs to the US dollar)

(2) As adopted by the 91st International Labour Conference  
Assessed after the adoption of the budget on Timor-Leste which joined the Organization on 19 August 2003  
Assessed after the adoption of the budget on Samoa which joined the Organization on 7 March 2005

709,651
5
<u>2</u>
<u>709,658</u>

(3) Details of expenditure are provided in Statement IV and Information Annex II.

(4) Revaluation of the excess of income over expenditure from the budget rate of exchange to the United Nations monthly rate of exchange in the last month of the biennium.

Relevant exchange rates (Swiss francs to the dollar):		2004-05	2002-03
A	Budget rate of exchange	1.34	1.77
B	UN rate of exchange in December	1.31	1.30
Excess of income over expenditure:			
C	In '000s of US dollars	520	110
D	In '000s of Swiss francs at budget rate (CxA)	697	195
E	In '000s of US dollars at December 2003 UN rate (D/B)	532	150
F	Revaluation of surplus in '000s of US dollars (E-C)	12	40

(5) US dollar equivalent of 14,964,475 Swiss Francs at the December 2005 UN exchange rate

(6) With the introduction of the accrual method of accounting, all contributions due in a financial period are recorded as income in the financial period (Article 10, paragraph 5), and the excess or shortfall of income over expenditure in any complete financial period is calculated by deducting budgetary expenditure from budgetary income with a financial provision being made for delays in the payment of contributions. Such provision amounts to 100 per cent of the contributions unpaid at the end of the financial period (Article 18, paragraph 1). Contributions outstanding at 31 December 2005 amounted to 174,753,584 Swiss francs while at 31 December 2003 the amount outstanding was 141,810,523 Swiss francs. The provision for delays in the payment of contributions was thus increased by 32,943,061 Swiss francs or US\$25,147,375 at the December 2005 rate of exchange. Details of contributions are provided in Schedule 1.2.1.

**Schedule 1.1.1.1 - Additional 2004-05 expenditure items approved by the Governing Body**

Governing Body Sessions	Description of Items	Amount in US dollars
288th (November 2003)	Implementation of measures to improve security at the headquarters building	780,000 (1)
288th (November 2003) (GB.288/PFA/14/1)	Commission of Inquiry concerning Belarus	577,000 (2)
288th (November 2003) (GB.288/PFA/14/2)	Elaboration of a code of good drafting practices for the preparation of international labour standards	105,000 (2)
291st (November 2004) (GB.291/PFA/13/1)	Governing Body delegation to attend the Extraordinary Summit of Heads of State and Government of the African Union in Ouagadougou held in September 2004	11,500 (2)
	Total	<u>1,473,500</u>

(1) Financed in the first instance from savings in Part I and through the use of Part II.

(2) Financed from savings in Part I.

**Schedule 1.1.2 - Income and Expenditure and Changes in Reserves and Fund Balances**  
**General Fund - (Working Capital Fund, Income Adjustment Account and Capital funds relating to land and buildings) (1)**  
**for the biennium ending 31 December 2005**  
**(in thousands of Swiss francs and United States dollars)**

	Working Capital Fund				Income Adjustment Account				Capital funds relating to land and buildings (2) (in US dollars)		TOTAL (in US dollars)		
	2004-05 Swiss francs	US dollars	2002-03 Swiss francs	US dollars	2004-05 Swiss francs	US dollars	2002-03 Swiss francs	US dollars	2004-05	2002-03	2004-05	2002-03	
<b>INCOME</b>													
Other/Miscellaneous income:													
Investment income, including interest (3):													
Earned on the Working Capital Fund					525	419	386	273				419	273
Other interest earned					799	626	2,014	1,392				626	1,392
					1,324	1,045	2,400	1,665				1,045	1,665
Currency exchange adjustments													
Exchange rate gains (losses)					203	128	(381)	(288)				128	(288)
Revaluation of fund balances (loss)		(118)		5,711	-	(280)	-	5,186	(710)	11,675	(1,108)	22,572	
		(118)		5,711	203	(152)	(381)	4,898	(710)	11,675	(980)	22,284	
Other/Miscellaneous					834	696	428	303			696	303	
<b>TOTAL INCOME</b>		(118)		5,711	2,361	1,589	2,447	6,866	(710)	11,675	761	24,252	
<b>EXPENDITURE</b>													
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>		(118)		5,711	2,361	1,589	2,447	6,866	(710)	11,675	761	24,252	
Cancellation of prior period's obligations					2,337	1,783	3,393	2,610			1,783	2,610	
Credits towards contribution due from Afghanistan and Argentina (4)	(649)	(495)	-	-							(495)	-	
Land and buildings acquired:													
Lima									955	1,762	955	1,762	
Dar es Salaam									864	52	864	52	
Santiago									1,888	19	1,888	19	
Capital payments made on loan for headquarters building									5,912	5,333	5,912	5,333	
Financing/ reimbursement of 2002-03 deficit	14,964	11,423	(14,964)	(11,511)							11,423	(11,511)	
Financing of 2004-05 deficit	(34,351)	(26,222)	-	-	(12,859)	(9,816)	-	-			(36,038)	-	
<b>RESERVES AND FUND BALANCES BEGINNING OF PERIOD</b>	20,036	15,412	35,000	21,212	36,386	27,989	30,546	18,513	67,455	48,614	110,856	88,339	
<b>RESERVES AND FUND BALANCES END OF PERIOD</b>	-	-	20,036	15,412	28,225	21,545	36,386	27,989	76,364	67,455	97,909	110,856	

(1) The Working Capital Fund and the Income Adjustment Account are wholly Swiss franc-based, while the Capital Funds relating to land and buildings are partially Swiss franc-based (as regards the headquarters building). Fund balances are accordingly either wholly or partially valued in United States dollars at the United Nations monthly accounting rate of exchange in effect at the end of each financial period (2004-05; December 2005 rate of 1.31 Swiss francs to the dollar; 2002-03: December 2003 rate of 1.30 Swiss francs to the dollar)

(2) See Note 20 to Statement II, which gives details of the Capital Funds relating to land and buildings.

(3) Other interest includes 40 per cent of the interest earned on temporarily surplus regular budget funds.

(4) At the 91st session the General Conference decided, in derogation of Chapter V of the Financial Regulations, to transfer an amount of 28,386 Swiss Francs towards the contribution due from Afghanistan for 2004 and 620,944 Swiss Francs towards the contribution due from Argentina for 2004. The Working Capital Fund will be reimbursed for such transfers from any excess of income over expenditure as defined in article 18.1 of the Financial Regulations

**Schedule 1.1.3 - Income and Expenditure and Changes in Reserves and Fund Balances**  
**General Fund - (Other funds forming part of the General Fund)**  
**for the biennium ending 31 December 2005**  
**(in thousands of United States dollars)**

	Other funds (Schedule 1.1.3.1)		Other funds (Schedule 1.1.3.2)		TOTAL	
	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03
<b>INCOME</b>						
Other/Miscellaneous income:						
Revenue producing activities	3,318	3,374	-	-	3,318	3,374
Allocations from other funds	831	687	6,455	5,906	7,286	6,593
Income from services rendered			34,315	27,085	34,315	27,085
Investment income, including interest	247	248	1,446	1,689	1,693	1,937
Currency exchange adjustments	26	2,220	2,557	16,748	2,583	18,968
Other/Miscellaneous	732	889	177	259	909	1,148
<b>TOTAL INCOME</b>	<b>5,154</b>	<b>7,418</b>	<b>44,950</b>	<b>51,687</b>	<b>50,104</b>	<b>59,105</b>
<b>EXPENDITURE</b>	<b>8,005</b>	<b>6,924</b>	<b>81,866</b>	<b>68,817</b>	<b>89,871</b>	<b>75,741</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>(2,851)</b>	<b>494</b>	<b>(36,916)</b>	<b>(17,130)</b>	<b>(39,767)</b>	<b>(16,636)</b>
Transfer from 2000-01 surplus						
To IT Fund			-	5,940	-	5,940
To Appropriation from 2000-01 surplus			-	48,999	-	48,999
To Building and Accommodation Fund	-	3,267			-	3,267
<b>RESERVES AND FUND BALANCES BEGINNING OF PERIOD</b>	<b>13,501</b>	<b>9,740</b>	<b>100,523</b>	<b>62,714</b>	<b>114,024</b>	<b>72,454</b>
<b>RESERVES AND FUND BALANCES END OF PERIOD</b>	<b>10,650</b>	<b>13,501</b>	<b>63,607</b>	<b>100,523</b>	<b>74,257</b>	<b>114,024</b>

**Schedule 1.1.3.1 - Income and Expenditure and Changes in Reserves and Fund Balances**  
**General Fund - ( Other funds forming part of the General Fund)**  
**for the biennium ending 31 December 2005**  
**(in thousands of United States dollars)**

	Building Accommodation Fund (1)		Publications Revolving Fund		Compensation Fund		Fidelity Guarantee Insurance Fund		Special Payments Fund		Nobel Peace Prize Fund		TOTAL	
	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03
<b>INCOME</b>														
Other/Miscellaneous income:														
Revenue producing activities	483	526	2,835	2,848			387	362					3,318	3,374
Allocations from other funds	295	213							149	112			831	687
Investment income, including interest	205	152	(6)	3	4	20			6	15	13	20	247	248
Currency exchange adjustments	25	2,220	1	-									26	2,220
Other/Miscellaneous			28	69	704	820							732	889
<b>TOTAL INCOME</b>	<b>1,008</b>	<b>3,111</b>	<b>2,858</b>	<b>2,920</b>	<b>1,095</b>	<b>1,202</b>	<b>25</b>	<b>38</b>	<b>155</b>	<b>127</b>	<b>13</b>	<b>20</b>	<b>5,154</b>	<b>7,418</b>
<b>EXPENDITURE</b>	<b>3,530</b>	<b>2,217</b>	<b>3,018</b>	<b>3,443</b>	<b>1,233</b>	<b>1,120</b>			<b>195</b>	<b>119</b>	<b>29</b>	<b>25</b>	<b>8,005</b>	<b>6,924</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>(2,522)</b>	<b>894</b>	<b>(160)</b>	<b>(523)</b>	<b>(138)</b>	<b>82</b>	<b>25</b>	<b>38</b>	<b>(40)</b>	<b>8</b>	<b>(16)</b>	<b>(5)</b>	<b>(2,851)</b>	<b>494</b>
Transfer from 2000-01 surplus (2)	-	3,267											-	3,267
<b>RESERVES AND FUND BALANCES, BEGINNING OF PERIOD</b>	<b>10,735</b>	<b>6,574</b>	<b>161</b>	<b>684</b>	<b>363</b>	<b>281</b>	<b>1,180</b>	<b>1,142</b>	<b>444</b>	<b>436</b>	<b>618</b>	<b>623</b>	<b>13,501</b>	<b>9,740</b>
<b>RESERVES AND FUND BALANCES END OF PERIOD</b>	<b>8,213</b>	<b>10,735</b>	<b>1</b>	<b>161</b>	<b>225</b>	<b>363</b>	<b>1,205</b>	<b>1,180</b>	<b>404</b>	<b>444</b>	<b>602</b>	<b>618</b>	<b>10,650</b>	<b>13,501</b>

(1) The fund is Swiss franc based. Fund balances are accordingly valued in United States dollars at the United Nations monthly accounting rate of exchange in effect in the last month of each period.  
(2004-05: December 2005 rate of 1.31 Swiss francs to the dollar; 2002-03: December 2003 rate of 1.30 Swiss francs to the dollar).

(2) At the 90th session (2002), the International Labour Conference decided in derogation of article 18.2 of the Financial Regulations, to retain 90,801,000 Swiss francs of the 2000-01 surplus for urgent priorities and time-bound investments. Of the amount retained, 4,867,500 Swiss francs was allocated to the Building and Accommodation Fund.

**Schedule 1.1.3.2 - Income and Expenditure and Changes in Reserves and Fund Balances**  
**General Fund - (Other funds forming part of the General Fund)**  
**for the biennium ending 31 December 2005**  
(in thousands of United States dollars)

	Programme Support		Terminal Benefits fund (1)		Appropriation from prior period surpluses (Note 28) (4)		ITS Fund (2)		Reserve Fund for Extra- budgetary Accounts		TOTAL	
	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03
<b>INCOME</b>												
Other/Miscellaneous income:												
Allocations from other funds			6,455	5,906							6,455	5,906
Income from services rendered (3)	34,315	27,085									34,315	27,085
Investment income, including interest	236	428	344	578	552	417	314	266			1,446	1,689
Currency exchange adjustments	9	1	1	-	1,748	10,432	799	6,315			2,557	16,748
Other Miscellaneous	177	259									177	259
<b>TOTAL INCOME</b>	<b>34,737</b>	<b>27,773</b>	<b>6,800</b>	<b>6,484</b>	<b>2,300</b>	<b>10,849</b>	<b>1,113</b>	<b>6,581</b>			<b>44,950</b>	<b>51,687</b>
<b>TOTAL EXPENDITURE</b>	<b>21,221</b>	<b>30,361</b>	<b>6,343</b>	<b>6,930</b>	<b>19,825</b>	<b>14,838</b>	<b>34,477</b>	<b>16,688</b>			<b>81,866</b>	<b>68,817</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>13,516</b>	<b>(2,588)</b>	<b>457</b>	<b>(446)</b>	<b>(17,525)</b>	<b>(3,989)</b>	<b>(33,364)</b>	<b>(10,107)</b>			<b>(36,916)</b>	<b>(17,130)</b>
Transfer from 2000-01 surplus (2)												
To IT Fund					(16,570)	-	16,570	5,940			-	5,940
To Appropriation from 2000-01 surplus					-	48,999					-	48,999
<b>RESERVES AND FUND BALANCES, BEGINNING OF PERIOD</b>	<b>15,133</b>	<b>17,721</b>	<b>18,196</b>	<b>18,642</b>	<b>47,798</b>	<b>2,788</b>	<b>19,371</b>	<b>23,538</b>	<b>25</b>	<b>25</b>	<b>100,523</b>	<b>62,714</b>
<b>RESERVES AND FUND BALANCES END OF PERIOD</b>	<b>28,649</b>	<b>15,133</b>	<b>18,653</b>	<b>18,196</b>	<b>13,703</b>	<b>47,798</b>	<b>2,577</b>	<b>19,371</b>	<b>25</b>	<b>25</b>	<b>63,607</b>	<b>100,523</b>

(1) The estimated liability for terminal benefits as at 31 December 2005 was \$105.9 million. The Terminal Benefits Fund serves to meet the cost of repatriation grants and other statutory indemnities payable under articles 11.4, 11.5 and 11.6 of the Staff Regulations termination of contracts. It is currently financed from the inclusion in staff costs of a provision of 3.5 per cent of the basic salary of eligible officials and from interest earned on the resources of the Fund.

(2) At the 90th session (2002), the International Labour Conference decided in derogation of article 18.2 of the Financial Regulations, to retain 90,801,000 Swiss francs of the 2000-01 surplus for urgent priorities and time-bound investments. Of the amount 8,850,000 Swiss francs was allocated to the Information Technology Systems Fund. Revalued exchange gains of 16.6m were transferred from the 2000-01 Surplus to the Information Technology Systems Fund in accordance with the decision of the Governing Body GB 2911/PFA/7

(3) Includes interest of \$339,472 earned on Extra-Budgetary technical cooperation fund balances not specifically attributable to donors (2002-03 \$574,209).

(4) Appropriations from cash surpluses from 1990-91, 1992-93 and 2000-01 as approved by sessions of the International Labour Conference. The accounts are Swiss franc-based. Fund balances are accordingly valued in US dollars at the United Nations monthly accounting rate of exchange at the end of each period (2004-05: December 2005 rate of 1.31 Swiss francs to the dollar; 2002-03: December 2003 rate of 1.30 Swiss francs to the dollar).

**Schedule 1.2.1 - Assessed contributions of member States and amounts due by States for prior periods of membership in the ILO - Summary  
for the biennium ending 31 December 2005  
(in Swiss francs)**

Details	Balance due as at 1.1.04 (1)	Assessed Contributions 2004-05	Total Amounts due	Amount received or credited (2)			Balance due as at 31.12.05
				2004	2005	Total Income	
A. Assessed contributions for the financial period 2004-05:							
2004 - Assessed with the budget	-	354,830,269	354,830,269	320,753,352	20,332,414	341,085,766	13,744,503
2005 - Assessed with the budget	-	354,828,216	354,828,216	-	242,367,956	242,367,956	112,460,260
<b>Total assessed contributions for the financial period 2004-05</b>	-	709,658,485	709,658,485	320,753,352	262,700,370	583,453,722	126,204,763
B. Assessed contributions for previous financial periods due from member States	135,123,442	-	135,123,442	69,358,087	23,856,713	93,214,800	41,908,642
C. Amounts due by States for prior periods of membership in the ILO	6,687,081	-	6,687,081	23,452	23,450	46,902	6,640,179
<b>Total assessed contributions and other amounts due for previous financial periods</b>	141,810,523	-	141,810,523	69,381,539	23,880,163	93,261,702	48,548,821
Total 2004-05	141,810,523	709,658,485	851,469,008	390,134,891	286,580,533	676,715,424	174,753,584
Total 2002-03	126,651,615	768,253,157	894,904,772	400,495,680	352,598,569	753,094,249	141,810,523

Balance due in US dollars at the United Nations monthly accounting rate of exchange for December 2005 (1.31 Swiss francs to the dollar)

133,399,682

(1) Excludes assessed contributions for 2004.

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

	<u>2004</u>	<u>2005</u>
The incentive scheme for 2002 and 2003 respectively	21,575	347,987
Cash surpluses for previous financial periods	2,731,183	-
50 per cent of the net premium for previous financial periods	1,801,278	144,594
Credits from Working Capital Fund	649,330	-
<b>Total Credits</b>	<u>5,203,366</u>	<u>492,581</u>



**Schedule 1.2.1.1 - 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 2005  
(in Swiss francs)**

State	2004-05 Assessed Contributions								Amounts due for previous financial periods					Total due as at 31.12.05	
	2004				2005				Balance due as at 31.12.05	Balance due as at 01.01.04	Amount received or credited in 2004	Amount received or credited in 2005	Balance due as at 31.12.05		Calendars years of Assessment
	Assessed Contributions		Amount received or credited		Assessed Contributions		Amount received or credited								
	%	Amount	in 2004	in 2005	%	Amount	in 2004	in 2005							
Finland	0.51400	1,823,802	1,823,802	-	0.533	1,891,219	1,891,219	-	-	-	-	-	-	-	-
France	6.36700	22,591,727	22,591,727	-	6.036	21,417,255	21,417,255	-	-	-	-	-	-	-	-
Gabon	0.01400	49,675	2,481	47,194	0.009	31,934	19,363	12,571	33,546	-	33,546	-	-	-	12,571
Gambia (2)	0.00100	3,548	-	-	0.001	3,548	-	7,096	56,388	-	-	-	56,388	1997-04	63,484
Georgia (1)	0.00500	17,741	-	-	0.003	10,645	-	28,386	3,054,161	-	-	-	3,054,161	1993-04	3,082,547
Germany	9.62000	34,134,194	34,134,194	-	8.670	30,763,353	30,763,353	-	-	-	-	-	-	-	-
Ghana	0.00500	17,741	17,741	-	0.004	14,193	-	14,193	43,554	43,554	-	-	-	-	14,193
Greece	0.53100	1,884,122	1,884,122	-	0.530	1,880,574	1,775,767	104,807	1,966,821	1,966,821	-	-	-	-	104,807
Grenada	0.00100	3,548	3,548	-	0.001	3,548	1,285	2,263	-	-	-	-	-	-	2,263
Guatemala	0.02600	92,255	92,255	-	0.030	106,448	106,448	-	-	-	-	-	-	-	-
Guinea	0.00300	10,645	1,553	9,092	0.003	10,645	10,645	-	18,162	-	18,162	-	-	-	-
Guinea-Bissau (2)	0.00100	3,548	1,240	-	0.001	3,548	4	5,852	228,015	-	-	228,015	1992-01+2003-04	233,867	
Guyana	0.00100	3,548	3,095	-	0.001	3,548	13	3,988	-	-	-	-	2004	3,988	
Haiti	0.00200	7,097	-	-	0.003	10,645	-	17,742	18,338	18,338	-	-	2004	17,742	
Honduras	0.00500	17,741	17,741	-	0.005	17,741	17,741	-	-	-	-	-	-	-	-
Hungary	0.11800	418,694	418,694	-	0.126	447,080	447,080	-	-	-	-	-	-	-	-
Iceland	0.03200	113,544	113,544	-	0.034	120,641	120,641	-	-	-	-	-	-	-	-
India	0.33600	1,192,213	1,192,213	-	0.421	1,493,814	1,493,814	-	-	-	-	-	-	-	-
Indonesia	0.19700	699,006	699,006	-	0.142	503,852	503,852	-	788,458	788,458	-	-	-	-	-
Iran, Islamic Republic of	0.26800	950,932	72,984	-	0.157	557,076	-	1,435,024	1,009,456	936,732	-	72,724	2003-04	1,507,748	
Iraq (1)	0.13400	475,466	-	-	0.016	56,772	-	532,238	5,652,327	-	-	5,652,327	1988-04	6,184,565	
Ireland	0.29000	1,028,993	1,028,993	-	0.350	1,241,888	1,241,875	13	-	-	-	-	-	-	13
Israel	0.40900	1,451,235	44,620	733,052	0.467	1,657,034	-	2,330,597	3,057,633	1,641,886	1,415,747	-	2004	2,330,597	
Italy	4.98753	17,697,018	17,697,018	-	4.890	17,350,957	17,350,957	-	1,493,635	1,493,635	-	-	-	-	-
Jamaica	0.00400	14,193	14,193	-	0.008	28,386	28,386	-	-	-	-	-	-	-	-
Japan	19.21804	68,190,468	68,190,468	-	19.485	69,137,710	-	69,137,710	9,218,281	9,218,281	-	-	-	-	69,137,710
Jordan	0.00800	28,386	28,386	-	0.011	39,031	39,031	-	-	-	-	-	-	-	-
Kazakhstan (1)	0.02700	95,803	95,803	-	0.025	88,706	88,706	-	4,374,702	257,335	257,335	3,860,032	1994-99	3,860,032	
Kenya	0.00800	28,386	28,386	-	0.009	31,934	31,934	-	-	-	-	-	-	-	-
Kiribati	0.00100	3,548	3,548	-	0.001	3,548	3,538	10	-	-	-	-	-	-	10
Korea, Republic of	1.82300	6,468,465	6,468,465	-	1.798	6,379,759	2,677,275	3,702,484	-	-	-	-	-	-	3,702,484
Kuwait	0.14500	514,497	514,497	-	0.162	574,817	574,817	-	-	-	-	-	-	-	-
Kyrgyzstan (2)	0.00100	3,548	-	-	0.001	3,548	-	7,096	1,124,749	-	-	1,124,749	1992-04	1,131,845	
Lao People's Democratic Republic	0.00100	3,548	3,548	-	0.001	3,548	3,548	-	36,885	36,885	-	-	-	-	-
Latvia (1)	0.01000	35,483	35,483	-	0.015	53,224	53,224	-	803,069	227,709	143,840	431,520	1997-98	431,520	
Lebanon	0.01200	42,579	42,579	-	0.024	85,158	8,669	76,489	42,328	42,328	-	-	-	-	76,489
Lesotho	0.00100	3,548	3,548	-	0.001	3,548	3,548	-	-	-	-	-	-	-	-
Liberia (1)	0.00100	3,548	3,548	-	0.001	3,548	7	3,541	202,620	11,919	-	190,701	1993-99	194,242	
Libyan Arab Jamahiriya	0.06600	234,185	188,882	45,303	0.132	468,369	468,369	-	52,370	52,370	-	-	-	-	-
Lithuania	0.01700	60,320	60,320	-	0.024	85,158	84,579	579	31,139	31,139	-	-	-	-	579
Luxembourg	0.07900	280,312	280,312	-	0.077	273,215	273,215	-	-	-	-	-	-	-	-
Madagascar	0.00300	10,645	528	10,117	0.003	10,645	216	10,429	-	-	-	-	-	-	10,429
Malawi	0.00200	7,097	2,374	-	0.001	3,548	20	8,251	-	-	-	-	2004	8,251	
Malaysia	0.23100	819,646	819,646	-	0.203	720,295	720,295	-	-	-	-	-	-	-	-
Mali	0.00200	7,097	7,097	-	0.002	7,097	7,097	-	199	199	-	-	-	-	-
Malta	0.01500	53,224	53,224	-	0.014	49,675	49,675	-	-	-	-	-	-	-	-
Mauritania	0.00100	3,548	3,548	-	0.001	3,548	3,101	447	400	400	-	-	-	-	447
Mauritius	0.01100	39,031	39,031	-	0.011	39,031	39,031	-	-	-	-	-	-	-	-
Mexico	1.06900	3,793,082	3,793,082	-	1.885	6,688,457	6,688,457	-	-	-	-	-	-	-	-
Moldova, Republic of (1)	0.00200	7,097	-	-	0.001	3,548	3,548	7,097	2,722,249	-	-	2,722,249	1992-04	2,729,346	
Mongolia	0.00100	3,548	3,548	-	0.001	3,548	3,548	-	-	-	-	-	-	-	-
Morocco	0.04300	152,575	152,575	-	0.047	166,768	166,768	-	-	-	-	-	-	-	-
Mozambique	0.00100	3,548	166	3,084	0.001	3,548	5	3,841	3,841	3,382	459	-	2004	3,841	
Myanmar	0.01000	35,483	35,483	-	0.010	35,483	35,483	-	-	-	-	-	-	-	-
Namibia	0.00700	24,838	24,838	-	0.006	21,290	21,290	-	-	-	-	-	-	-	-
Nepal	0.00400	14,193	-	14,193	0.004	14,193	14,193	-	28,928	-	28,928	-	-	-	-
Netherlands	1.71100	6,071,061	6,071,061	-	1.691	6,000,096	6,000,096	-	-	-	-	-	-	-	-

**Schedule 1.2.1.1 - 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 2005  
(in Swiss francs)**

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State	2004-05 Assessed Contributions							Amounts due for previous financial periods				Total due as at 31.12.05	
	2004		2005		Assessed Contributions %	Amount received or credited in 2005	Balance due as at 31.12.05	Balance due as at 01.01.04	Amount received or credited in 2004	Amount received or credited in 2005	Balance due as at 31.12.05		Calendars years of Assessment
	Assessed Contributions %	Amount	Amount received or credited in 2004	Amount received or credited in 2005									
New Zealand	0.23700	840,936	840,936	-	0.221	784,164	784,164	-	-	-	-	-	-
Nicaragua	0.00100	3,548	2,161	1,387	0.001	3,548	3,548	-	865	865	-	-	-
Niger	0.00100	3,548	-	3,548	0.001	3,548	3,285	263	12,831	11,863	968	-	263
Nigeria	0.06700	237,733	237,733	-	0.042	149,027	149,027	-	-	-	-	-	-
Norway	0.63600	2,256,689	2,256,689	-	0.680	2,412,812	2,412,812	-	-	-	-	-	-
Oman	0.06000	212,895	212,895	-	0.070	248,378	248,378	-	-	-	-	-	-
Pakistan	0.06000	212,895	9,593	203,302	0.055	195,154	139,243	55,911	291,230	176,146	115,084	-	55,911
Panama	0.01800	63,869	44,064	19,805	0.019	67,417	38,927	28,490	-	-	-	-	28,490
Papua New Guinea	0.00600	21,290	-	10,592	0.003	10,645	53	21,290	-	-	-	-	21,290
Paraguay (1)	0.01600	56,772	56,772	-	0.012	42,579	42,579	-	-	-	-	-	-
Peru	0.11600	411,597	-	-	0.092	326,439	-	738,036	1,176,158	303,938	442,283	811,730	811,730
Philippines	0.09800	347,729	44,569	85,819	0.095	337,084	-	554,425	302,691	302,691	-	-	554,425
Poland (1)	0.37200	1,319,950	1,319,950	-	0.461	1,635,745	1,635,745	-	3,163,765	790,942	790,942	1,581,881	1,581,881
Portugal	0.45500	1,614,455	1,614,455	-	0.470	1,667,679	1,667,679	-	-	-	-	-	-
Qatar	0.03300	117,092	117,092	-	0.064	227,088	227,088	-	-	-	-	-	-
Romania	0.05700	202,250	202,250	-	0.060	212,895	212,895	-	-	-	-	-	-
Russian Federation	1.18200	4,194,035	3,508,457	685,578	1.101	3,906,627	3,906,617	10	377,415	377,415	-	-	10
Rwanda	0.00100	3,548	3,548	-	0.001	3,548	12	3,536	-	-	-	-	3,536
Saint Kitts and Nevis	0.00100	3,548	165	-	0.001	3,548	-	6,931	3,836	-	3,714	122	7,053
Saint Lucia	0.00200	7,097	7,097	-	0.002	7,097	4,935	2,162	7,415	7,415	-	-	2,162
Saint Vincent and the Grenadines	0.00100	3,548	3,548	-	0.001	3,548	356	3,192	3,841	3,841	-	-	3,192
Samoa	0.00000	-	-	-	0.001	2,916	-	2,916	-	-	-	-	2,916
San Marino	0.00200	7,097	7,097	-	0.003	10,645	10,645	-	-	-	-	-	-
Sao Tome and Principe (2)	0.00100	3,548	-	-	0.001	3,548	-	7,096	222,121	-	-	222,121	229,217
Saudi Arabia	0.54500	1,933,798	1,933,798	-	0.714	2,533,453	1,270,349	1,263,104	-	-	-	-	1,263,104
Senegal	0.00500	17,741	17,622	119	0.005	17,741	17,281	460	-	-	-	-	460
Serbia and Montenegro	0.01900	67,417	1,878	65,539	0.019	67,417	6	67,411	72,984	-	72,984	-	67,411
Seychelles	0.00200	7,097	-	7,097	0.002	7,097	-	7,097	18,724	7,683	11,041	-	7,097
Sierra Leone (2)	0.00100	3,548	-	-	0.001	3,548	-	7,096	416,029	22,576	-	393,453	400,549
Singapore	0.38700	1,373,174	1,373,174	-	0.388	1,376,722	1,376,722	-	-	-	-	-	-
Slovakia	0.04200	149,027	149,027	-	0.051	180,961	180,961	-	-	-	-	-	-
Slovenia	0.08000	283,860	283,860	-	0.082	290,957	290,957	-	-	-	-	-	-
Solomon Islands (2)	0.00100	3,548	-	-	0.001	3,548	-	7,096	17,517	-	-	17,517	24,613
Somalia (2)	0.00100	3,548	-	-	0.001	3,548	-	7,096	359,320	-	-	359,320	366,416
South Africa	0.40200	1,426,398	1,426,398	-	0.292	1,036,090	1,036,090	-	-	-	-	-	-
Spain	2.48034	8,800,874	8,800,874	-	2.523	8,952,242	8,952,242	-	-	-	-	-	-
Sri Lanka	0.01600	56,772	56,772	-	0.017	60,320	60,320	-	-	-	-	-	-
Sudan	0.00600	21,290	1,264	-	0.008	28,386	-	48,412	8,318	-	-	8,318	56,730
Suriname	0.00200	7,097	1,067	-	0.001	3,548	-	9,578	28,477	28,477	-	-	9,578
Swaziland	0.00200	7,097	7,097	-	0.002	7,097	7,097	-	-	-	-	-	-
Sweden	1.01109	3,587,603	3,587,603	-	0.999	3,544,705	3,544,705	-	-	-	-	-	-
Switzerland	1.25400	4,449,509	4,449,509	-	1.198	4,250,807	4,250,807	-	-	-	-	-	-
Syrian Arab Republic	0.07900	280,312	280,312	-	0.038	134,834	131,304	3,530	-	-	-	-	3,530
Tajikistan (2)	0.00100	3,548	84	-	0.001	3,548	-	7,012	568,716	3,146	3,437	562,133	569,145
Tanzania, United Republic of	0.00400	14,193	14,193	-	0.006	21,290	21,205	85	361	361	-	-	85
Thailand	0.29000	1,028,993	1,028,993	-	0.209	741,585	741,585	-	-	-	-	-	-
The former Yugoslav Republic of Macedonia	0.00600	21,290	-	-	0.006	21,290	-	42,580	23,048	23,048	-	-	42,580
Timor-Leste, Democratic Republic of	0.00100	4,969	-	-	0.001	3,548	-	8,517	-	-	-	-	8,517
Togo (1)	0.00100	3,548	-	-	0.001	3,548	-	7,096	237,829	27,924	-	209,905	217,001
Trinidad and Tobago	0.01600	56,772	56,772	-	0.022	78,062	78,062	-	6,511	6,511	-	-	-
Tunisia	0.02900	102,899	100,388	2,511	0.032	113,544	101,905	11,639	2,842	2,842	-	-	11,639
Turkey	0.43300	1,536,394	1,536,394	-	0.372	1,319,950	1,319,950	-	-	-	-	-	-
Turkmenistan (2)	0.00300	10,645	-	-	0.005	17,741	-	28,386	860,378	-	-	860,378	888,764
Uganda	0.00500	17,741	4	11,237	0.006	21,290	25	27,765	11,342	-	11,342	-	27,765
Ukraine (1)	0.05200	184,509	184,509	-	0.039	138,382	138,382	-	5,801,989	527,454	527,454	4,747,081	4,747,081
United Arab Emirates	0.19900	706,102	706,102	-	0.235	833,839	833,839	-	-	-	-	-	-
United Kingdom	5.45100	19,341,527	19,341,527	-	6.133	21,761,436	21,761,436	-	-	-	-	-	-

**Schedule 1.2.1.1 - 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 2005  
(in Swiss francs)**

State	2004-05 Assessed Contributions								Amounts due for previous financial periods				Total due as at 31.12.05		
	2004				2005				Balance due as at 31.12.05	Balance due as at 01.01.04	Amount received or credited in 2004	Amount received or credited in 2005		Balance due as at 31.12.05	Calendars years of Assessment
	Assessed Contributions		Amount received or credited		Assessed Contributions		Amount received or credited								
%	Amount	in 2004	in 2005	%	Amount	in 2004	in 2005								
United States	22.00000	78,061,566	63,562,202	14,499,364	22.000	78,061,566	54,035,999	24,025,567	32,882,238	32,882,238	-	-	-	24,025,567	
Uruguay	0.07900	280,312	7,774	-	0.048	170,316	-	442,854	604,289	300,830	-	303,459	2003-04	746,313	
Uzbekistan (2)	0.01100	39,031	-	-	0.014	49,675	-	88,706	1,295,145	-	-	1,295,145	1996-04	1,383,851	
Vanuatu	0.00100	3,548	-	-	0.001	3,548	-	7,096	2,357	2,330	-	27	2003-04	7,123	
Venezuela	0.20500	727,392	-	722,354	0.171	606,751	-	611,789	1,967,764	1,967,764	-	-	2004	611,789	
Viet Nam (1)	0.01600	56,772	56,772	-	0.021	74,513	74,513	-	-	-	-	-	-	-	
Yemen	0.00600	21,290	20,216	1,074	0.006	21,290	19,904	1,386	923	923	-	-	-	1,386	
Zambia	0.00200	7,097	893	6,204	0.002	7,097	639	6,458	4,115	-	4,115	-	-	6,458	
Zimbabwe	0.00800	28,386	28,386	-	0.007	24,838	-	24,838	57,679	57,679	-	-	-	24,838	
<b>TOTAL : Member states</b>	<b>100.00100</b>	<b>354,830,269</b>	<b>320,753,352</b>	<b>20,332,414</b>	<b>100.001</b>	<b>354,828,216</b>	<b>242,367,956</b>	<b>126,204,763</b>	<b>135,123,442</b>	<b>69,358,087</b>	<b>23,856,713</b>	<b>41,908,642</b>		<b>168,113,405</b>	
<i>Amounts due by States for prior periods of membership in the ILO</i>															
Albania	-	-	-	-	-	-	-	-	22,522	11,262	11,260	-	-	-	
Former Socialist Fed. Rep. of Yugoslavia (5)	-	-	-	-	-	-	-	-	6,370,623	-	-	6,370,623	1989-01	6,370,623	
Paraguay (1)	-	-	-	-	-	-	-	-	245,066	-	-	245,066	1937	245,066	
Viet Nam (1)	-	-	-	-	-	-	-	-	48,870	12,190	12,190	24,490	1984-85	24,490	
<b>Total-Amounts due by States for prior periods of membership in the ILO</b>									<b>6,687,081</b>	<b>23,452</b>	<b>23,450</b>	<b>6,640,179</b>		<b>6,640,179</b>	
<b>TOTAL</b>	<b>100.00100 (3)</b>	<b>354,830,269</b>	<b>320,753,352</b>	<b>20,332,414</b>	<b>100.001(4)</b>	<b>354,828,216</b>	<b>242,367,956</b>	<b>126,204,763</b>	<b>141,810,523</b>	<b>69,381,539</b>	<b>23,880,163</b>	<b>48,548,821</b>		<b>174,753,584</b>	

**(1) Financial Arrangements**

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

Member State	Session of Conference at which arrangement was approved	
Armenia	93rd	(2005)
Belarus	86th	(1998)
Cambodia	82nd	(1995)
Cape Verde	85th	(1997)
Democratic Republic of the Congo	89th	(2001)
Georgia	93rd	(2005)
Iraq	93rd	(2005)
Kazakhstan	88th	(2000)
Latvia	87th	(1999)
Liberia	88th	(2000)
Moldova, Republic of	93rd	(2005)
Paraguay	92nd	(2004)
Poland	75th	(1988)
Togo	93rd	(2005)
Ukraine	88th	(2000)
Viet Nam	81st	(1994)

**(2) Member states which are two years or more in arrears and which have lost the right to vote under paragraph 4 of article 13 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 (2003-2004)  
Each of these member States had therefore lost the right to vote in accordance with the provisions of paragraph 4 of article 13 of the Constitution of the Organization

- (3) Includes Democratic Republic of Timor-Leste's 2003 and 2004 contributions of 4,969 Swiss francs (2003:1,421 Swiss francs; 2004: 3,548 Swiss francs) assessed, after adoption of the budget
- (4) Includes Samoa's 2005 contributions of 2,916 Swiss francs, assessed after adoption of the budget.

**Status of Yugoslavia**

- (5) The Former Socialist Federal Republic of Yugoslavia was deleted from the list of ILO member States on 24 November 2000.

**Schedule 2.1 - Income and Expenditure and Changes in Reserves and Fund Balances**  
**Other funds managed by the ILO - (Funds with approved budgets)**  
**for the biennium ending 31 December 2005**  
**(In thousands of United States dollars)**

	International Institute for Labour Studies (IILS) (Note 29)								Inter-American Vocational Training Research and Documentation Centre (CINTERFOR) (Note 30)			International Occupational Safety and Health Information Centre (CIS) (Note 31)			TOTAL		
	Operational Activities		Endowment Fund		Other Funds		Total		2004-05 Budget	2002-03 Actual	2002-03 Actual	2004-05 Budget	2002-03 Actual	2002-03 Actual	2004-05	2002-03	
	2004-05	2002-03	2004-05	2002-03	(1)		2004-05	2002-03									2004-05
	Budget	Actual	Actual	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03	Budget	Actual	Actual	Budget	Actual	Actual	2004-05	2002-03
<b>INCOME</b>																	
Voluntary contributions				26	-			26	-	550	492	418	-	83	106	601	524
Other/Miscellaneous income:																	
Revenue producing activities	5	5	6					5	6	30	67	28	180	238	350	310	384
Allocations from other funds																	
Endowment Fund	52	28	51					28	51							28	51
ILO Regular Budget	4,942	4,729	4,015					4,729	4,015	1,774	1,774	1,696	2,876	2,598	2,035	9,101	7,746
Investment income, including interest	200	94	172	57	15	29	13	180	200	-	11	15	-	16	9	207	224
Currency exchange adjustments	-	4	-	-	28	-	3	4	31	-	(5)	(7)	-	2	114	1	138
Other/Miscellaneous	-	6	55	-	2			6	57	5	10	16	-	-	2	16	75
<b>TOTAL INCOME</b>	<b>5,199</b>	<b>4,866</b>	<b>4,299</b>	<b>83</b>	<b>45</b>	<b>29</b>	<b>16</b>	<b>4,978</b>	<b>4,360</b>	<b>2,359</b>	<b>2,349</b>	<b>2,166</b>	<b>3,056</b>	<b>2,937</b>	<b>2,616</b>	<b>10,264</b>	<b>9,142</b>
<b>EXPENDITURE</b>	<b>8,262</b>	<b>6,193</b>	<b>4,702</b>	<b>(8)</b>	<b>(5)</b>	<b>(1)</b>	<b>49</b>	<b>6,184</b>	<b>4,746</b>	<b>2,359</b>	<b>2,305</b>	<b>2,130</b>	<b>2,653</b>	<b>3,015</b>	<b>2,411</b>	<b>11,504</b>	<b>9,287</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>(3,063)</b>	<b>(1,327)</b>	<b>(403)</b>	<b>91</b>	<b>50</b>	<b>30</b>	<b>(33)</b>	<b>(1,206)</b>	<b>(386)</b>	<b>-</b>	<b>44</b>	<b>36</b>	<b>403</b>	<b>(78)</b>	<b>205</b>	<b>(1,240)</b>	<b>(145)</b>
Transfer to operational activities				(28)	(51)			(28)	(51)							(28)	(51)
Adjustments to reserve balance				-	21	-	(21)										
<b>RESERVES AND FUND BALANCES, BEGINNING OF PERIOD</b>	<b>4,229</b>	<b>4,676</b>	<b>5,079</b>	<b>4,313</b>	<b>4,293</b>	<b>956</b>	<b>1,010</b>	<b>9,945</b>	<b>10,382</b>	<b>-</b>	<b>282</b>	<b>246</b>	<b>371</b>	<b>770</b>	<b>565</b>	<b>10,997</b>	<b>11,193</b>
<b>RESERVES AND FUND BALANCES, END OF PERIOD</b>	<b>1,166</b>	<b>3,349</b>	<b>4,676</b>	<b>4,376</b>	<b>4,313</b>	<b>986</b>	<b>956</b>	<b>8,711</b>	<b>9,945</b>	<b>-</b>	<b>326</b>	<b>282</b>	<b>774</b>	<b>692</b>	<b>770</b>	<b>9,729</b>	<b>10,997</b>

(1) Other funds consist of the Reserve Fund and the Phelan Legacy Fund.

**Schedule 2.2 - Assets, Liabilities, and Reserves and Fund Balances (Note 15)**  
**Other funds managed by the ILO - (Funds with approved budgets)**  
**as at 31 December 2005**  
**(in thousands of United States dollars)**

	<b>International Institute for Labour Studies (IILS) (Note 29)</b>		Reference	<b>Inter-American Vocational Training Reserch and Documentation Centre (CINTERFOR) (Note 30)</b>		<b>International Occupational Safety and Health Information Centre (CIS) (Note 31)</b>		<b>TOTAL</b>	
	2004-05	2002-03		2004-05	2002-03	2004-05	2002-03	2004-05	2002-03
<b>ASSETS</b>									
Cash and term deposits	421	409						421	409
Investments	5,231	5,284	Note 18					5,231	5,284
Accounts receivable									
Interfund balances	3,138	4,230		339	306	693	770	4,170	5,306
Other	7	32		-	25			7	57
<b>TOTAL ASSETS</b>	<b>8,797</b>	<b>9,955</b>		<b>339</b>	<b>331</b>	<b>693</b>	<b>770</b>	<b>9,829</b>	<b>11,056</b>
<b>LIABILITIES</b>									
Accounts payable:									
Unliquidated obligations	71	10		12	49			83	59
Other	17	-						17	-
<b>TOTAL LIABILITIES</b>	<b>88</b>	<b>10</b>		<b>12</b>	<b>49</b>			<b>100</b>	<b>59</b>
<b>RESERVES AND FUND BALANCES</b>									
Operating reserves	3,345	4,676		327	282	693	770	4,365	5,728
Other:									
Endowment Fund	4,377	4,313						4,377	4,313
Reserve Fund	421	399						421	399
Phelan Legacy Fund	566	557						566	557
	5,364	5,269						5,364	5,269
<b>TOTAL RESERVES AND FUND BALANCES</b>	<b>8,709</b>	<b>9,945</b>		<b>327</b>	<b>282</b>	<b>693</b>	<b>770</b>	<b>9,729</b>	<b>10,997</b>
<b>TOTAL LIABILITIES, RESERVES AND FUND BALANCES</b>	<b>8,797</b>	<b>9,955</b>		<b>339</b>	<b>331</b>	<b>693</b>	<b>770</b>	<b>9,829</b>	<b>11,056</b>

**Schedule 3.1 - Income and Expenditure and Changes in Reserves and Fund Balance (Note 32)**  
**(Extra-budgetary Technical Cooperation)**  
**for the biennium ending 31 December 2005**  
**(in thousands of United States dollars)**

	United Nations Development Programme		Other (including IPEC and Trust Funds)		TOTAL	
	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03
<b>INCOME</b>						
Voluntary contributions			328,808	247,862	328,808	247,862
Other/Miscellaneous income:						
Funds received under inter-organization arrangements	1,885	14,673			1,885	14,673
Investment income, including interest			1,781	1,961	1,781	1,961
Currency exchange adjustments	(38)	2	(2)	134	(40)	136
Other/Miscellaneous	336	-	228	(7)	564	(7)
<b>TOTAL INCOME</b>	<b>2,183</b>	<b>14,675</b>	<b>330,815</b>	<b>249,950</b>	<b>332,998</b>	<b>264,625</b>
<b>EXPENDITURE</b>	<b>6,990</b>	<b>16,995</b>	<b>311,856</b>	<b>237,833</b>	<b>318,846</b>	<b>254,828</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>(4,807)</b>	<b>(2,320)</b>	<b>18,959</b>	<b>12,117</b>	<b>14,152</b>	<b>9,797</b>
Net advance paid (to)/from UNDP (1)	(3,083)	-			(3,083)	-
Refund to donors			(5,557)	(4,643)	(5,557)	(4,643)
<b>RESERVES AND FUND BALANCES BEGINNING OF PERIOD</b>	<b>981</b>	<b>3,301</b>	<b>108,824</b>	<b>101,350</b>	<b>109,805</b>	<b>104,651</b>
<b>RESERVES AND FUND BALANCES END OF PERIOD</b>	<b>(6,909)</b>	<b>981</b>	<b>122,226</b>	<b>108,824</b>	<b>115,317</b>	<b>109,805</b>

(1) Represents the advance funding made to or from UNDP for services to be provided.

**Schedule 3.2 - Schedule of Assets, Liabilities and Reserves and Fund Balances (Note 15 and Note 32)**  
**(Extra-budgetary technical cooperation)**  
**as at 31 December 2005**  
**(in thousands of United States dollars)**

	United Nations Development Programme		Other (including IPEC and Trust Funds)		TOTAL	
	2004-05	2002-03	2004-05	2002-03	2004-05	2002-03
<b>ASSETS</b>						
Cash and term deposits	-	31	-	242	-	273
Accounts receivable:						
Interfund balances	-	987	128,215	112,726	128,215	113,713
Other	2,209	1,863	3,013	945	5,222	2,808
<b>TOTAL ASSETS</b>	<b>2,209</b>	<b>2,881</b>	<b>131,228</b>	<b>113,913</b>	<b>133,437</b>	<b>116,794</b>
<b>LIABILITIES</b>						
Accounts payable:						
Unliquidated obligations	212	723	-	30	212	753
Interfund balances	8,622	-			8,622	-
Other (1)	284	1,177	9,002	5,059	9,286	6,236
<b>TOTAL LIABILITIES</b>	<b>9,118</b>	<b>1,900</b>	<b>9,002</b>	<b>5,089</b>	<b>18,120</b>	<b>6,989</b>
<b>RESERVES AND FUND BALANCES</b>						
Balances relating to projects funded by donors	(6,909)	981	122,226	108,824	115,317	109,805
<b>TOTAL RESERVES AND FUND BALANCES</b>	<b>(6,909)</b>	<b>981</b>	<b>122,226</b>	<b>108,824</b>	<b>115,317</b>	<b>109,805</b>
<b>TOTAL LIABILITIES, RESERVES AND FUND BALANCES</b>	<b>2,209</b>	<b>2,881</b>	<b>131,228</b>	<b>113,913</b>	<b>133,437</b>	<b>116,794</b>

(1) Includes \$5.2 million to finance terminal benefits for experts employed on extra-budgetary TC projects.

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## **General notes to the financial statements and schedules**

### ***I. Statement of objectives and activities***

1. The International Labour Organization was founded in 1919 to promote social justice and internationally recognized human and labour rights. It became the first specialized agency of the United Nations in 1946. The 1944 Declaration of Philadelphia affirms that “all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity”. The ILO’s strategic objectives cover principles and rights at work, employment, social protection and social dialogue. Taken together, these constitute Decent Work.
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; working conditions; occupational safety and health; labour administration, labour law and 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. Within the United Nations 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.

### ***II. Statement of accounting policies***

#### General accounting policies

3. The general accounting policies and reporting practices applied in the ILO reflect the requirements of the Financial Regulations and the Financial Rules. Subject to these requirements, they are consistent with generally accepted accounting principles and comply fully with the United Nations Accounting Standards adopted by the Administrative Committee on Coordination of the United Nations (UN) system in October 1993, and revised by the Consultative Committee on Administrative Questions (Financial and Budgetary Questions)<sup>1</sup> in subsequent years and more recently by the High Level Committee on Management.

<sup>1</sup> The Consultative Committee on Administrative Questions (Financial and Budgetary Questions) was a subsidiary body of the Administrative Committee on Coordination, now known as the Chief Executives’ Board.

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## Particular accounting policies

4. The following particular accounting policies have a material effect on the results reported in the financial statements:
- (a) The financial period of the Organization is a biennium consisting of two consecutive calendar years.
  - (b) The Organization's financial statements are prepared according to the historical cost accounting convention and have not been adjusted to reflect the effects of changing price levels for goods and services.
  - (c) Income and expenditure for activities carried out for the General Fund (including the regular budget)<sup>2</sup> and for other funds managed by the ILO<sup>3</sup> have been accounted for on an accrual basis. Reimbursements for non-salary staff entitlements are expensed upon submission of proof of entitlement.
  - (d) As regards extra-budgetary technical cooperation activities,<sup>4</sup> income from voluntary contributions is recorded on a cash basis and other/miscellaneous income is recorded on an accruals basis. In accordance with the United Nations Accounting Standards and with individual donors' requirements, expenditure incurred on behalf of the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA) has been accounted for on an accrual basis. However, expenditure for other extra-budgetary technical cooperation activities has been accounted for on a cash basis.
  - (e) With the exception of land and buildings, fixed assets owned by the Organization are not capitalized in the accounting records.
  - (f) No depreciation is charged in respect of capitalized fixed assets, nor are provisions established for end-of-service benefits, post-retirement benefits and unused annual leave.
  - (g) Income and expenditure are accounted for separately except that any allowances or refunds in respect of budgetary expenditure are credited to the corresponding expenditure accounts when brought to account in the same financial period as that in which the original charges were incurred.
  - (h) Separate accounting records are maintained for extra-budgetary contributions accepted by the ILO.

## Currency of accounting

5. The currency of accounting of the ILO is the US dollar. Subsidiary accounts for member States' assessed contributions as well as some other funds (e.g. the Working Capital Fund) are maintained in Swiss francs. These accounts and other subsidiary accounts maintained in currencies other than the US dollar are converted to US dollars in accordance with the exchange rate policy described below.

<sup>2</sup> Schedules 1.1.1 through 1.2.1.1.

<sup>3</sup> Schedules 2.1 and 2.2.

<sup>4</sup> Schedule 3.1 through 3.2.

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## Exchange rate translation policy

6. The following accounting policies are applied in relation to exchange rate translations:
  - (a) The financial statements of the Organization are expressed in thousands of United States (US) dollars. Regular budget Swiss franc income and expenditure are translated into US dollars at the ILO budget rate of exchange for the financial period. All transactions in other currencies are translated into US dollars at the UN monthly accounting rate of exchange prevailing at the time of the transaction.
  - (b) An Exchange Equalization Account is maintained to accumulate the difference arising from the application of the monthly UN accounting rate of exchange used in the financial statements and the budget rate of exchange used to translate regular budget income and expenditure for the financial period as well as gains and losses arising from the revaluation of the assets, liabilities, reserves and fund balances belonging to the General Fund. Residual gains or losses on this account at the end of each financial period are set off against the net premium earned on the forward purchase of US dollars (see note 25(b) to Statement II); where the premium earned is not sufficient to absorb any residual losses, the unabsorbed loss is charged to the Income Adjustment Account.
  - (c) Other gains and losses on currency exchange transactions resulting from currency fluctuations are offset and the net difference is charged or credited to the relevant fund.
  - (d) Assets, liabilities and reserves and fund balances held in currencies other than the US dollar not belonging to the General Fund are translated into US dollars at the UN monthly accounting rate of exchange applicable at the end of the financial period. Exchange gains and losses resulting from the revaluation of these assets, liabilities and reserves and fund balances held in currencies other than the US dollar are offset and charged to the relevant fund.

### **III. Contingent liabilities**

7. The maximum potential liability for legal cases pending before the ILO Administrative Tribunal is estimated at \$412,850.
8. The ILO is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the Organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly, together with its share of any actuarial deficiency payments which might become payable pursuant to article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. At the time of this report the United Nations General Assembly has not invoked this provision.
9. After-service medical benefits: staff members (and their spouses, dependent children and survivors) retiring from service at the age of 55 or later, are eligible for after-service health insurance coverage if they have had at least ten years' service with the United Nations or a specialized agency and have been a participant in ILO/ITU Staff Health Insurance Fund during the five years immediately preceding cessation of service. The same benefit applies

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to staff members receiving compensation for disability from UNJSPF or the ILO pension scheme. Costs of this scheme are covered by joint contributions by the ILO and the participants concerned. The Organization's share of such costs is accounted for on a pay-as-you-go basis and is reported as expenditure in the year it is incurred. The ILO contribution during the 2004-05 biennium was \$12.5 million (\$10.5 million for 2002-03 biennium). An actuarial valuation in accordance with International Accounting Standards (IAS) 19, carried out at the end of 2005, determined the ILO's liability for after-service medical benefits for eligible staff amounts to \$389 million as at 31 December 2005 (\$437 million as at 31 December 2003). The principal actuarial assumptions under IAS 19, used for calculating the ILO's liability for after-service medical benefits were as follows:

- (a) discount rate: 4.5 %;
- (b) price inflation: 2 %;
- (c) medical inflation rate of 5 % decreasing to 3 % over ten years.

10. Other disclosures relating to similar liabilities are contained in the footnotes to the relevant schedules.

#### **IV. Outstanding commitments**

11. As at 31 December 2005, the amount of the outstanding commitments for the construction of the new premises in Santiago is \$84,426.

12. As at 31 December 2005, the amount of the outstanding commitments for the construction of the new office premises in Dar es Salaam is \$860,812.

#### **V. Other matters**

13. Under the Swiss franc assessment system combined with the forward purchase of US dollar requirements, forward purchase contracts held with banks as at 31 December 2005 in respect of the 2006-07 biennium totalled \$213.2 million.

14. During the financial period, ex gratia payments were made and accounts receivable were written off in the amounts of \$302,994 and \$886,031 respectively.

#### **VI. Notes to Statement II: Statement of assets and liabilities, and reserves and fund balances as at 31 December 2005**

15. The rate of exchange between the Swiss franc and the United States (US) dollar used for the preparation of this statement is the United Nations monthly accounting rate of exchange for December 2005 of 1.31 Swiss francs to the US dollar.

16. There is no holding of non-convertible currencies as at 31 December 2005.

**17. Cash and term deposits consist of the following (in thousands of US dollars):**

	<b>2004-05</b>	<b>2002-03</b>
Cash on hand and current accounts	34,129	24,075
Term deposits	194,863	255,025
<b>Total</b>	<b>228,992</b>	<b>279,100</b>

**18. Summary of investments, at cost or market value whichever is lower (in thousands of US dollars):**

	<b>2004-05</b>		<b>2002-03</b>	
	Cost	Market	Cost	Market
General Fund	23,306	23,473	22,500	22,544
Investment held in trust (SHIF)	34,976	35,663	39,271	40,349
	<b>58,282</b>	<b>59,136</b>	<b>61,771</b>	<b>62,893</b>
Other funds managed by the ILO:				
International Institute for Labour Studies (IILS)	5,231	7,054	5,284	6,010

**19. Other accounts receivable consist of the following (in thousands of United States dollars)**

	<b>2004-05</b>	<b>2002-03</b>
Staff advances	9,164	8,596
External offices' imprest suspense	1,222	2,111
Current account with Turin Centre	382	114
Miscellaneous tax receivable	2,100	1,685
Accrued interest	489	653
Other receivable held in trust (SHIF)	745	717
Other miscellaneous	2,589	1,904
<b>Total</b>	<b>16,691</b>	<b>15,780</b>

20. Land and buildings held by the Organization and Capital Funds related thereto are shown in the following table in US dollars. Further details on additions to land and buildings made during the financial period are given in the Financial Report.

	Cost		Capital Funds	
	2004-05	2002-03	2004-05	2002-03
Headquarters land and buildings:				
Cost (Swiss francs 158,182,227)	120,749,792	121,678,636		
Capital Funds:				
Net repayments against loan principal				
2004-2005 (Swiss francs 84,136,516)			64,226,348	
2002-2003 (Swiss francs 76,731,917)				59,024,552
ILO Regional Office, Lima	2,880,692	1,925,518	2,880,692	1,925,518
ILO Office, Brazil	406,174	406,174	406,174	406,174
ILO Regional Office, Abidjan	2,417,065	2,417,065	2,417,065	2,417,065
ILO Office, Dar es Salaam	915,517	51,803	915,517	51,803
ILO Subregional Office, New Delhi	566,731	566,731	566,731	566,731
ILO Office, Buenos Aires	676,680	676,680	676,680	676,680
ILO Subregional Office, Santiago	1,906,986	19,068	1,906,986	19,068
ILO Office, Islamabad	1,918,420	1,918,420	1,918,420	1,918,420
ILO Office, Brussels	449,217	449,217	449,217	449,217
<b>Total</b>	<b>132,887,274</b>	<b>130,109,312</b>	<b>76,363,830</b>	<b>67,455,228</b>

21. In addition to the capital accounts shown above the value, at cost, of furniture and equipment at headquarters, in external offices and on regular budget technical cooperation projects on 31 December 2005, amounted to \$34.9 million (31 December 2003, \$36.8 million). The ILO also had custody of equipment for projects financed by the United Nations Development Programme and the United Nations Population Fund on 31 December 2005, amounting to \$6.9 million (31 December 2003, \$7.1 million). This equipment is to be handed over to governments upon completion of these projects.

22. Borrowings payable consist of the loan made to the ILO from the Fondation des Immeubles pour les Organisations Internationales (FIPOI) for the headquarters building.

In July 1996, the Swiss authorities decided to waive interest on all loans made by FIPOI to international organizations for the construction of their buildings and standardize the loan repayment period to 50 years, both measures effective from 1 January 1996. As at 1 January 2004, there were 22 instalments left to be paid until year 2025. The balance of the loan outstanding at 31 December 2005 was 74,045,710 Swiss francs. Of this amount, 3,702,300 Swiss francs was payable in 2006, and the balance was payable in subsequent years. The corresponding US dollar amounts, at the UN monthly accounting rate of exchange for December 2005, were \$56,523,443, \$2,826,183 and \$53,697,260.

23. Unliquidated obligations are set up in accordance with article 17(1) of the Financial Regulations.

**24.** Other accounts payable consists of the following (in thousands of United States dollars) –

	2004-05	2002-03
UN Joint Pension fund payable	4,031	1,012
Thrift benefits fund payable	174	71
Suppliers	624	–
Provisions	287	281
Other miscellaneous	1,901	933
<b>Total</b>	<b>7,017</b>	<b>2,297</b>

**25.** The following amounts were payable to member States:

	Ref.	(In US dollars)				
		Balance as at 1 January 2004	Transfers in	Transfers out	Revaluations	Balance as at 31 December 2005
Undistributed surpluses:	(a)					
1982-83		2,544		(1,323)	41	1,262
1990-91		38,479		(2,818)	(165)	35,496
1992-93		21,345		(3,234)	(15)	18,096
1998-99		56,635		(19,772)	473	37,336
2000-01		2,342,542		(2,157,799)	80,948	265,691
<b>Total</b>		<b>2,461,545</b>		<b>(2,184,946)</b>	<b>81,282</b>	<b>357,881</b>
Undistributed net premium:	(b)					
1990-91		29,230		(2,141)	(125)	26,964
1992-93		7,934		(1,203)	(6)	6,725
1994-95		48,400		(4,794)	(150)	43,456
1996-97		18,290		(507)	(116)	17,667
1998-99		186,718		(65,186)	1,560	123,092
2000-01		1,484,247		(1,367,192)	51,289	168,344
2002-03		248,459		(127,959)	15,686	136,186
2004-05			1,625,063			1,625,063
		<b>2,023,278</b>	<b>1,625,063</b>	<b>(1,568,982)</b>	<b>68,138</b>	<b>2,147,497</b>
Incentive Fund	(c)	283,503	1,852,187	(325,213)	36,050	1,846,527
Working Capital Fund amounts	(d)	20,558	183		(171)	20,570
<b>Total amounts payable to member States</b>		<b>4,788,884</b>	<b>3,477,433</b>	<b>(4,079,141)</b>	<b>185,299</b>	<b>4,372,475</b>

- (a) Surpluses shall be used to reduce contributions of Members in the following way: Members which paid their ordinary contributions in the financial period in which the surplus accrued shall have their share of the surplus deducted from their contributions assessed for the second year of the succeeding financial period; other Members shall not be credited with their share until they have paid the contributions due from them for the financial period in which the surplus accrued. When they have done so, their share of the surplus shall be deducted from their contributions assessed for the first year of the next financial period for which a budget is adopted after such payment.

- (b) Any net premium earned on the forward purchase of US dollars for the financial period is distributed in the following manner: one-half to the Incentive Fund (see (c) below) and one-half to member States. The one-half share of any net premium distributed to member States is apportioned between them on the basis of the proportion of each member State's assessed contributions for the biennium in which the net premium was earned to the total of the assessed contributions for the biennium of all member States. The amounts so established are then used to reduce the contributions of the member States in the same way as are surpluses (see (a) above).

The net premium (in US dollars) earned on the forward purchase of US dollars for the financial period 2004-05 was distributed as follows:

	2004-05	2002-03
Premium earned (payable) on the forward purchase of US dollars <sup>1</sup>	5,168,337	2,168,594
Exchange gains (losses) arising on revaluation of:		
Income <sup>2</sup>	43,246,372	94,708,909
Expenditure <sup>2</sup>	(22,824,067)	(49,202,438)
Forward purchase of US dollars <sup>2</sup>	(14,882,594)	(42,376,479)
Assets and liabilities <sup>3</sup>	(8,009,007)	(7,858,297)
Budgetary surplus <sup>4</sup>	(11,916)	(39,715)
Revaluation of the provision for delays in the payment of contributions	563,001	3,096,344
Net premium	<u>3,250,126</u>	<u>496,918</u>
Distribution of the net premium:		
One-half to the undistributed net premium account for distribution to member States	1,625,063	248,459
One-half to the Incentive Fund (see Information Annex III)	1,625,063	248,459

<sup>1</sup> The difference between the actual cost of purchasing dollar requirements forward under forward contracts and the value of the forward purchase contracts at the budget rate of exchange.

<sup>2</sup> Exchange gains (losses) arising from the revaluation of income, expenditure and forward purchase of US dollars represent the difference between the value of Swiss franc-linked transactions at the budget rate of exchange and the same transactions valued at the prevailing UN monthly accounting rate of exchange.

<sup>3</sup> The revaluation of non-US dollar General Fund asset, liability and fund balances and reserves at the UN monthly accounting rate of exchange.

<sup>4</sup> The difference between the budgetary surplus (deficit) valued at the budget rate of exchange and at the UN monthly accounting rate at the end of the financial period.

- (c) The Incentive Fund established to encourage early payment of member States' assessed contributions is financed by 60 per cent of all interest earned on temporarily surplus Regular Budget funds and by one-half of the net premium earned on the forward purchase of US dollars. Details of the amounts standing to the credit of member States under the Incentive Fund are given in Information Annex III.
- (d) Represents the shares of the Working Capital Fund of member States which left the ILO and have since rejoined. These shares will be payable to the member States concerned when the contributions for the prior period of membership have been paid.

26. Special accounts are summarized below (in thousands of United States dollars):

Special Accounts	Balance as at 01.01.2004	Receipts	Disbursements	Balance as at 31.12.2005
ILO/ISSA	110	13,409	12,592	927
Invalidity and Assistance Fund	11	-	-	11
World Food Programme	81	-	-	81
ILO Administrative Tribunal	-	3,208	3,208	-
ITU Administration of SHIF	156	554	456	254
Language Training	221	378	286	313
Interpretation Services	170	1,308	1,406	72
Other miscellaneous activities funded by gifts & voluntary contributions	2,080	6,152	4,413	3,819
<b>Total Special Accounts</b>	<b>2,829</b>	<b>25,009</b>	<b>22,361</b>	<b>5,477</b>

27. Cash, term deposits and investments held in trust on behalf of SHIF are summarized below:

	2004-05	2002-03
Investments	34,976,009	39,270,699
Interfund balance	2,111,276	5,238,794
Other	745,330	716,559
<b>Total</b>	<b>37,832,615</b>	<b>45,226,052</b>

28. The balances of appropriations from prior biennium surpluses are detailed below:

	(In 000 US dollars)				Balance as at 31 December 2005
	Balance as at 1 January 2004	Interest Income	Expenditure	Revaluations	
Appropriation from:					
1990-91 cash surplus	604	19	(96)	1	528
1992-93 cash surplus	2,971	79	(169)	(13)	2,868
2000-01 surplus	44,223	454	(36,130)	1,760	10,307
<b>Total</b>	<b>47,798</b>	<b>552</b>	<b>(36,395)</b>	<b>1,748</b>	<b>13,703</b>

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**VII. Other funds managed by ILO and Extra-budgetary technical cooperation****29. The International Institute for Labour Studies (IILS)**

The International Institute for Labour Studies was established in 1960 as an autonomous facility of the ILO. Its mandate is to promote policy research and public discussion on emerging issues of concern to the ILO and its constituents – labour, business and government. Its programme is funded principally through a contribution from the ILO Regular Budget and income from its endowment fund.

**30. The Inter-American Vocational Training Research and Documentation Centre (CINTERFOR)**

The Inter-American Vocational Training Research and Documentation Centre was established in 1963 as a technical unit of the ILO, with headquarters in Montevideo, Uruguay. It acts as the coordinating body for a network of vocational training institutions of ILO Member States from America and Spain. Its programme is funded principally through a contribution from the ILO Regular Budget and contributions from other countries in the region.

**31. The International Occupational Safety and Health Information Centre (CIS)**

The International Occupational Safety and Health Information Centre was established in 1959 as a technical unit of the ILO, with headquarters in Geneva, Switzerland. Its mandate is to collect and disseminate all relevant information concerning occupational safety and health (OSH) being published throughout the world. Its programme is funded principally through a contribution from the ILO Regular Budget and income derived from sales of information services and copyrights.

**32. Extra-budgetary technical cooperation**

These are accounts established with specific terms of reference or under specific agreements to record receipts and expenditures of voluntary contributions for the purpose of financing wholly or in part the cost of technical cooperation activities consistent with the Organization's aims and policies.

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## 6. Information annexes

**Annex I - Strategic Objectives: Distribution of appropriation and expenditure for 2004-05  
(in United States dollars)**

<b>Strategic Objectives</b>	<b>Appropriation (1)</b>	<b>Expenditure</b>
Standards, fundamental principles and rights at work	70,766,259	70,687,194
Employment	125,931,103	125,511,652
Social protection	72,717,717	72,582,784
Social dialogue	<u>128,511,870</u>	<u>128,159,182</u>
<b>Total</b>	<u><u>397,926,949</u></u>	<u><u>396,940,812</u></u>

(1) To improve the comparability of 2004-05 expenditure, appropriations have been adjusted to reflect the transfers of the postal budget and the resources for the Executive Director's Office, Regions as presented in the footnote to Information Annex I of the 2006-07 Programme and Budget.

**Annex II. Regular budget expenditure in 2004-05 by object of expenditure**  
(in US dollars)

	1	2	3	4	5	6	7	8	9	
	Staff costs	Travel on official business	Contractual services	General operating expenses	Supplies and materials	Furniture and equipment	Acquisition and improvement of premises	Fellowships, grants and field projects	Other items	Total
<b>PART I - ORDINARY BUDGET</b>										
<b>Policy-making organs</b>										
International Labour Conference	8,570,601	83,555	1,094,152	1,351,965	193,620	11,158	-	9,187	-	11,314,238
Governing Body	2,395,469	2,283,094	-	46,583	-	-	-	-	-	4,725,146
Major regional meetings	256,987	120,823	114,276	116,799	6,796	-	-	-	-	615,681
Legal services	2,933,039	51,292	50,075	-	-	1,268	27,242	-	-	3,062,916
Relations, meetings and document services	40,937,083	56,597	1,863,271	592,655	154,293	258,260	-	21,898	-	43,884,057
<b>Strategic Objectives</b>										
<b>Technical programmes</b>										
Standards and fundamental principles and rights at work	26,046,680	1,178,509	641,335	83,826	466	147,356	-	996,614	-	29,094,786
Employment	31,254,724	1,670,645	2,372,985	98,069	22,351	193,782	-	2,448,359	-	38,060,915
Social protection	23,293,923	1,107,458	1,303,535	73,929	24,477	122,220	-	1,053,100	-	26,978,642
Social dialogue	27,951,455	1,986,268	1,966,787	111,397	14,864	107,409	-	8,974,565	-	41,112,745
Policy integration	11,326,710	530,668	648,082	47,669	22,256	157,106	-	931,094	-	13,663,585
Follow-up to the World Commission	242,391	98,546	178,936	12,076	-	-	-	75,285	-	607,234
Gender equality	1,643,854	150,329	215,302	892	8,562	19,249	-	141,094	-	2,179,282
International Institute for Labour Studies	1,436,723	19,952	408,868	10,597	8,756	18,064	-	2,825,952	-	4,728,912
International Training Centre of the ILO, Turin	-	-	-	-	-	-	-	6,108,196	-	6,108,196
External relations and partnerships	3,544,441	119,106	249,531	721,107	27,311	53,839	-	35,400	-	4,750,735
Communication and public information	15,456,065	284,401	2,995,732	316,723	1,329,969	477,730	-	59,828	-	20,920,448
Technical meetings	324,641	864,067	197,913	-	1,290	-	-	6,290	-	1,394,201
<b>Regions and technical cooperation</b>										
Development cooperation	3,097,761	71,627	3,148	9,328	-	2,723	-	-	-	3,184,587
Field programmes in Africa	32,563,108	2,840,484	131,302	6,315,123	316,215	837,472	-	5,562,875	7,407	48,573,986
Field programmes in the Americas	26,341,692	1,672,099	879,937	4,400,280	294,898	1,180,930	-	5,037,867	-	39,807,703
Field programmes in Arab States	6,968,060	529,059	86,843	494,336	29,104	199,543	-	1,622,684	-	9,929,629
Field programmes in Asia and the Pacific	31,301,855	1,841,062	863,933	4,024,295	412,739	500,851	-	3,934,777	-	42,879,512
Field programmes in Europe and Central Asia	12,197,927	463,951	225,872	2,159,071	126,515	230,188	-	655,571	-	16,059,095
<b>Support Services</b>										
Information technology and communications	8,917,696	28,580	187,300	1,895,734	-	421,665	-	63,506	-	11,514,481
Internal administration	18,467,355	115,574	483,226	14,898,591	1,223,904	156,978	-	46,510	-	35,392,138
<b>Management services</b>										
General management	5,603,062	716,294	152,689	349,094	18,531	20,219	-	3,625	-	6,863,514
Executive Director's Office, management and administration	493,515	8,365	-	-	-	-	-	688	-	502,568
Human resources development	14,492,073	207,770	844,019	256,386	56,958	159,108	-	2,242,962	-	18,259,276
Financial services	13,212,187	30,608	247,270	1,156	308	25,086	-	6,987	-	13,523,602
Programming and management	3,343,191	116,984	34,869	-	4,342	2,489	-	6,514	-	3,508,390
Internal audit and oversight	1,381,649	27,929	-	-	1,174	19,497	-	13,399	-	1,443,648
Evaluation	256,148	-	-	-	-	-	-	-	-	256,148
Other budgetary provisions	1,210,207	54,495	-	614,653	4,308	14,332	5,525,821	13,601,695	2,789,493	23,815,004
<b>Total Part I</b>	<b>377,462,272</b>	<b>19,330,191</b>	<b>18,441,188</b>	<b>39,002,334</b>	<b>4,305,275</b>	<b>5,364,496</b>	<b>5,525,821</b>	<b>56,486,522</b>	<b>2,796,900</b>	<b>528,715,000</b>
<b>PART II - UNFORESEEN EXPENDITURE</b>										
Unforeseen expenditure	-	-	-	-	-	-	-	-	360,537	360,537
<b>PART III - WORKING CAPITAL FUND</b>										
Working Capital Fund	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>377,462,272</b>	<b>19,330,191</b>	<b>18,441,188</b>	<b>39,002,334</b>	<b>4,305,275</b>	<b>5,364,496</b>	<b>5,525,821</b>	<b>56,486,522</b>	<b>3,157,437</b>	<b>529,075,537</b>

**Annex III - Distribution of the Incentive Fund amounts established in 2004-05 under the incentive scheme  
for the early payment of member States' assessed contributions (in Swiss francs)**

Member States	Incentive amounts earned in 2004-05					Percentage of total 2004-05 incentive amounts earned to 2004-05 assessed contributions
	Assessed contributions during 2004-05	60 % of Interest on budgetary surpluses		50% of 2004-05 net premium (1)	Amounts to be distributed in 2006 and 2007	
		2004	2005			
Afghanistan	39,031	9	14	295	318	0.81
Albania	28,386	-	3	19	22	0.08
Algeria	514,496	51	527	3,418	3,996	0.78
Angola	10,645	2	8	83	93	0.87
Armenia	14,194	-	1	6	7	0.05
Australia	11,336,668	1,573	11,034	85,514	98,121	0.87
Austria	6,358,470	893	5,896	47,120	53,909	0.85
Bahamas	88,706	12	90	674	776	0.87
Bahrain	170,317	18	197	1,243	1,458	0.86
Bangladesh	70,966	9	68	506	583	0.82
Barbados	67,417	-	9	34	43	0.06
Belarus	131,286	16	104	851	971	0.74
Belgium	7,742,288	56	1,623	7,830	9,509	0.12
Belize	7,096	-	-	5	5	0.07
Bosnia and Herzegovina	24,838	1	14	83	98	0.39
Botswana	78,062	8	51	422	481	0.62
Bulgaria	106,447	11	113	739	863	0.81
Burkina Faso	14,194	2	14	106	122	0.86
Burundi	7,096	-	-	2	2	0.03
Cameroon	60,320	-	43	167	210	0.35
Canada	18,929,929	2,494	19,504	143,362	165,360	0.87
China	12,645,974	115	4,227	19,524	23,866	0.19
Colombia	1,252,533	-	356	1,382	1,738	0.14
Cuba	255,474	-	213	827	1,040	0.41
Cyprus	269,667	35	259	1,963	2,257	0.84
Czech Republic	1,358,981	186	1,269	9,977	11,432	0.84
Denmark	5,169,805	731	4,981	39,161	44,873	0.87
Dominica	7,096	1	-	23	24	0.34
Dominican Republic	202,251	18	209	1,287	1,514	0.75
Ecuador	152,575	18	121	967	1,106	0.72
Egypt	709,650	-	106	410	516	0.07
El Salvador	141,931	-	126	489	615	0.43
Eritrea	7,096	1	8	54	63	0.89

**Annex III - Distribution of the Incentive Fund amounts established in 2004-05 under the incentive scheme  
for the early payment of member States' assessed contributions (in Swiss francs)**

Member States	Incentive amounts earned in 2004-05				Amounts to be distributed in 2006 and 2007	Percentage of total 2004-05 incentive amounts earned to 2004-05 assessed contributions
	Assessed contributions during 2004-05	60 % of Interest on budgetary surpluses		50% of 2004-05 net premium (1)		
		2004	2005			
Estonia	78,062	10	82	583	675	0.86
Ethiopia	28,386	4	27	212	243	0.86
Fiji	28,386	3	27	187	217	0.76
Finland	3,715,021	505	3,673	27,945	32,123	0.86
France	44,008,982	1,262	39,515	187,553	228,330	0.52
Germany	64,897,547	5,388	37,825	292,999	336,212	0.52
Ghana	31,934	5	-	133	138	0.43
Greece	3,764,696	20	-	542	562	0.01
Grenada	7,096	1	-	30	31	0.44
Guatemala	198,703	18	184	1,215	1,417	0.71
Guinea	21,290	-	16	63	79	0.37
Honduras	35,482	4	27	203	234	0.66
Hungary	865,774	13	843	3,626	4,482	0.52
Iceland	234,185	31	234	1,747	2,012	0.86
India	2,686,027	333	2,916	20,342	23,591	0.88
Indonesia	1,202,858	9	202	1,017	1,228	0.10
Ireland	2,270,881	226	-	6,133	6,359	0.28
Italy	35,047,975	1,175	4,471	49,243	54,889	0.16
Jamaica	42,579	1	8	56	65	0.15
Japan	137,328,178	14,917	-	404,874	419,791	0.31
Jordan	67,417	6	68	416	490	0.73
Kazakhstan	184,509	25	163	1,322	1,510	0.82
Kenya	60,320	6	3	171	180	0.30
Kiribati	7,096	1	-	23	24	0.34
Korea, Republic of	12,848,224	206	-	5,584	5,790	0.05
Kuwait	1,089,314	140	61	4,043	4,244	0.39
Lao People's Democratic Rep.	7,096	1	8	48	57	0.80
Latvia	88,707	10	103	670	783	0.88
Lebanon	127,737	4	-	98	102	0.08
Lesotho	7,096	1	7	50	58	0.82
Liberia	7,096	1	-	18	19	0.27
Libyan Arab Jamahiriya	702,554	-	12	46	58	0.01
Lithuania	145,478	1	-	38	39	0.03

**Annex III - Distribution of the Incentive Fund amounts established in 2004-05 under the incentive scheme  
for the early payment of member States' assessed contributions (in Swiss francs)**

Member States	Incentive amounts earned in 2004-05					Percentage of total 2004-05 incentive amounts earned to 2004-05 assessed contributions
	Assessed contributions during 2004-05	60 % of Interest on budgetary surpluses		50% of 2004-05 net premium (1)	Amounts to be distributed in 2006 and 2007	
		2004	2005			
Luxembourg	553,527	77	504	4,035	4,616	0.83
Malaysia	1,539,941	220	1,351	11,202	12,773	0.83
Mali	14,194	2	13	94	109	0.77
Malta	102,899	15	96	772	883	0.86
Mauritania	7,096	-	-	10	10	0.14
Mauritius	78,062	11	76	591	678	0.87
Mexico	10,481,539	271	6,655	33,172	40,098	0.38
Moldova, Republic of	10,645	-	7	26	33	0.31
Mongolia	7,096	-	-	2	2	0.03
Morocco	319,343	12	252	1,309	1,573	0.49
Myanmar	70,966	7	57	424	488	0.69
Namibia	46,128	-	14	70	84	0.18
Nepal	28,386	-	27	105	132	0.47
Netherlands	12,071,157	1,569	11,187	85,978	98,734	0.82
New Zealand	1,625,100	231	1,512	12,146	13,889	0.85
Nicaragua	7,096	-	6	23	29	0.41
Nigeria	386,760	66	230	2,695	2,991	0.77
Norway	4,669,501	549	4,490	32,317	37,356	0.80
Oman	461,273	57	445	3,276	3,778	0.82
Paraguay	99,351	12	65	590	667	0.67
Poland	2,955,695	347	3,171	21,730	25,248	0.85
Portugal	3,282,134	26	193	1,441	1,660	0.05
Qatar	344,180	30	56	1,040	1,126	0.33
Romania	415,145	52	364	2,812	3,228	0.78
Rwanda	7,096	-	-	9	9	0.13
Saint Lucia	14,194	-	-	2	2	0.01
Saint Vincent and the Grenadines	7,096	1	-	16	17	0.24
San Marino	17,742	2	3	52	57	0.32
Saudi Arabia	4,467,251	482	-	13,087	13,569	0.30
Singapore	2,749,896	333	2,470	18,632	21,435	0.78
Slovakia	329,988	40	313	2,296	2,649	0.80
Slovenia	574,817	77	558	4,270	4,905	0.85
South Africa	2,462,488	368	1,932	17,474	19,774	0.80

**Annex III - Distribution of the Incentive Fund amounts established in 2004-05 under the incentive scheme  
for the early payment of member States' assessed contributions (in Swiss francs)**

Member States	Incentive amounts earned in 2004-05				Amounts to be distributed in 2006 and 2007	Percentage of total 2004-05 incentive amounts earned to 2004-05 assessed contributions
	Assessed contributions during 2004-05	60 % of Interest on budgetary surpluses		50% of 2004-05 net premium (1)		
		2004	2005			
Spain	17,753,116	2,181	15,334	118,682	136,197	0.77
Sri Lanka	117,092	15	110	823	948	0.81
Swaziland	14,194	2	14	100	116	0.82
Sweden	7,132,308	969	6,596	51,894	59,459	0.83
Switzerland	8,700,316	1,224	8,224	65,137	74,585	0.86
Syrian Arab Republic	415,146	60	-	1,637	1,697	0.41
Tanzania, United Republic of	35,483	3	-	74	77	0.22
Thailand	1,770,578	287	1,448	13,412	15,147	0.86
Trinidad and Tobago	134,834	15	145	982	1,142	0.85
Turkey	2,856,344	345	2,050	17,318	19,713	0.69
Ukraine	322,891	2	251	1,044	1,297	0.40
United Arab Emirates	1,539,941	174	176	5,415	5,765	0.37
United Kingdom	41,102,963	2,227	36,096	200,485	238,808	0.58
Viet-Nam	131,285	5	14	186	205	0.16
Zimbabwe	53,224	6	-	173	179	0.34
<b>TOTAL</b>	<b>512,098,068</b>	<b>42,959</b>	<b>248,168</b>	<b>2,128,833</b>	<b>2,419,960</b>	<b>0.473</b>

(1) Equivalent to 1,625,063 US dollars at the December 2005 United Nations accounting rate of exchange of 1.31 Swiss francs to the US dollar (see note 25 (b) to Statement II). Distributed on the basis of the incentive points earned by each eligible member State during 2004-05 to the total incentive points earned by all eligible member States during 2004-05 under the incentive points system use for the annual distribution of interest credited to the Incentive Fund.

**Annex IV - Extra-budgetary technical cooperation expenditure by beneficiary country  
(in United States dollars )**

<b>Countries or Territories</b>	<b>United Nations Development Programme (UNDP)</b>	<b>IPEC</b>	<b>Others (including Deposit funds)</b>	<b>TOTAL</b>
<b><i>Africa</i></b>				
Regional		17,213,201	25,725,247	42,938,448
South Africa	43,847	10,836	2,028,031	2,082,714
Angola	40,577			40,577
Bénin	(552)	156,458	274,757	430,663
Burkina Faso	26,452	145,985	183,215	355,652
Burundi	374,491			374,491
Cameroon		245,048	42,399	287,447
Chad	(33,849)			(33,849)
Comoros	69,246			69,246
Congo	37,864		7,531	45,395
Ivory Cost		12,200	50,290	62,490
Egypt		42,042	20,000	62,042
Eritrea			75,438	75,438
Ethiopia			578,700	578,700
Gabon			251,188	251,188
Gambia	506,404			506,404
Ghana		436,212	986,015	1,422,227
Guinea	24,650			24,650
Guinea-Bissau	(323)			(323)
Kenya	102,406	575,455	114,922	792,783
Lesotho			82,621	82,621
Libyan Arab Jamahiriya			22,975	22,975
Madagascar		493,556	4,847,642	5,341,198
Malawi		15,975	78	16,053
Mali	101,138	33,300	700,513	834,951
Morocco		689,734	1,287,631	1,977,365
Mauritius	1,582			1,582
Mauritania	153,108			153,108
Mozambique	40,796		8,991	49,787
Niger		53,540	1,032,392	1,085,932
Nigéria			511,120	511,120
Uganda		42,972	1,678,283	1,721,255
Central African Republic		104,882		104,882
Democratic Republic of Congo			26,325	26,325
Rwanda			24,443	24,443
Sao Tome and Principe			377,400	377,400
Sénégal	995,226	862,801	415,623	2,273,650
Sierra Leone			48,146	48,146
Somalia			2,181,801	2,181,801
Sudan	19,008		132,573	151,581
United Republic of Tanzania	199,959	3,139,371	185,142	3,524,472
Togo	(11,394)	140,860	262,499	391,965
Zambia	(6,244)	38,205	1,420,489	1,452,450
Zimbabwe			180,577	180,577
<b>Total, Africa</b>	<b>2,684,392</b>	<b>24,452,633</b>	<b>45,764,997</b>	<b>72,902,022</b>
<b><i>Asia and the Pacific Region</i></b>				
Regional		9,175,251	16,169,897	25,345,148
Afghanistan			4,438,491	4,438,491
Bangladesh	1,180,403	4,701,877	1,949,086	7,831,366
Cambodia		874,468	4,616,288	5,490,756

**Annex IV - Extra-budgetary technical cooperation expenditure by beneficiary country  
(in United States dollars )**

<b>Countries or Territories</b>	<b>United Nations Development Programme (UNDP)</b>	<b>IPEC</b>	<b>Others (including Deposit funds)</b>	<b>TOTAL</b>
China		1,482,326	3,161,635	4,643,961
Republic of Korea			71,410	71,410
Fiji			12,525	12,525
Solomon Islands	100,369			100,369
India		6,405,287	1,777,426	8,182,713
Indonesia		2,147,476	5,347,440	7,494,916
Japan			4,259	4,259
Malaysia	108,241		31,310	139,551
Mongolia		609,415		609,415
Nepal		3,959,731	732,403	4,692,134
Pakistan	31,203	4,702,962	103,900	4,838,065
Papua New Guinea	44,509		339,253	383,762
Philippines	83,765	1,542,870	244,289	1,870,924
Lao People's Democratic Republic		123,512	1,254,989	1,378,501
Samoa	99,754			99,754
Sri Lanka		729,349	4,020,826	4,750,175
Thailand	281,006	7,303	77,189	365,498
Timor-Leste	1,205,256		202,581	1,407,837
Tonga	5,697			5,697
Viet Nam		349,648	2,212,339	2,561,987
<b>Total, Asia and Pacific</b>	<b>3,140,203</b>	<b>36,811,475</b>	<b>46,767,536</b>	<b>86,719,214</b>
<b>America</b>				
Regional		15,867,459	11,026,500	26,893,959
Antigua and Barbuda			23,027	23,027
Argentina			2,754,537	2,754,537
Aruba			29,409	29,409
Barbados			13,002	13,002
Belize		(1,381)	294,442	293,061
Bolivia			1,135,504	1,135,504
Brasil		3,358,445	1,458,853	4,817,298
British Virgin Islands			31,442	31,442
Chile		206,930	250,087	457,017
Colombia	2,796	604,101	1,219,329	1,826,226
Costa Rica		1,159,554	415,568	1,575,122
Dominica			8,937	8,937
El Salvador		5,107,987		5,107,987
Ecuador		1,088,332		1,088,332
Grenada			19,304	19,304
Guatemala		1,275,674		1,275,674
Guyana			278,858	278,858
Haiti	(6,134)	264,659	144,494	403,019
Honduras		630,331	386,778	1,017,109
Jamaica		139,118		139,118
Mexico		1,371,439	573,932	1,945,371
Nicaragua		664,229	397,685	1,061,914
Panama		687,314		687,314
Caribbean		48,904		48,904
Dominican Republic		3,154,472		3,154,472
Saint Lucia			52,096	52,096
Saint-Kitts-and-Nevis			25,773	25,773
Trinidad and Tobago			26,324	26,324
Uruguay			527,693	527,693
<b>Total, America</b>	<b>(3,338)</b>	<b>35,627,567</b>	<b>21,093,574</b>	<b>56,717,803</b>

**Annex IV - Extra-budgetary technical cooperation expenditure by beneficiary country  
(in United States dollars )**

<b>Countries or Territories</b>	<b>United Nations Development Programme (UNDP)</b>	<b>IPEC</b>	<b>Others (including Deposit funds)</b>	<b>TOTAL</b>
<b>Arab States</b>				
Regional		195,077	66,483	261,560
Palestinian Territory			120,287	120,287
Iraq	36,230		670,150	706,380
Jordan	51,301	341,297	1,304,491	1,697,089
Kuweit			106,956	106,956
Lebanon		19,565	25,535	45,100
Oman			16,869	16,869
Yémen	52,171	509,592	485,276	1,047,039
<b>Total, Arab States</b>	<b>139,702</b>	<b>1,065,531</b>	<b>2,796,047</b>	<b>4,001,280</b>
<b>Europe</b>				
Regional		2,739,290	9,128,380	11,867,670
Albania		83,088	2,701	85,789
Azerbaïdjan	18,691			18,691
Belarus			539,947	539,947
Bosnia and Herzegovina			171,987	171,987
Bulgaria			146,167	146,167
Cyprus			27,410	27,410
Croatia	303,865			303,865
France			748	748
Hungary			24,249	24,249
Italy			9,342	9,342
Latvia			60,907	60,907
Luxembourg			39,858	39,858
Moldavia	11,818			11,818
Portugal		9,301	21,097	30,398
Russie, Fédération de		318,023	1,023,324	1,341,347
Serbia and Montenegro			1,412,989	1,412,989
Sweden			29,081	29,081
Switzerland			158,998	158,998
Tadjikistan			74,863	74,863
Turkey		1,491,114	243,174	1,734,288
Ukraine	75,439	150,943	983,594	1,209,976
Uzbekistan			84,788	84,788
<b>Total, Europe</b>	<b>409,813</b>	<b>4,791,759</b>	<b>14,183,604</b>	<b>19,385,176</b>
Inter-regional projects	89,325	23,830,928	54,455,938	78,376,191
UNDP Administrative Operational				
Support Costs	495,701			495,701
Unallocated	34,411		213,872	248,283
<b>TOTAL GENERAL</b>	<b>6,990,209</b>	<b>126,579,893</b>	<b>185,275,568</b>	<b>318,845,670</b>