



Governing Body

329th *bis* Session, Geneva, 5 June 2017

GB.329bis/PFA/PV

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

PFA

Minutes of the Programme, Financial and Administrative Section of the Governing Body at its 329th *bis* Session (5 June 2017)

First item on the agenda

Financial report and audited consolidated financial statements for the year ended 31 December 2016 (GB.329bis/PFA/1)

1. The Programme, Financial and Administrative Section of the Governing Body met on 5 June 2017. It was chaired by the Chairperson of the Governing Body. Mr Cortebееck and Mr Mdwaba were the Worker and Employer spokespersons, respectively.
2. *A representative of the Director-General* (Treasurer and Financial Comptroller) made brief introductory comments on the financial statements for the year ended 31 December 2016. He confirmed that the officers of the Board of the ILO International Training Centre in Turin had met on 26 May 2017 and approved the Centre's financial statements for the year ended 31 December 2016, which were consolidated with those of the ILO.
3. The general purpose financial statements (Statements I–IV) had been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) on a full accrual basis and reflected one year's financial activity. In contrast, Statement V-A reported the biennial financial performance of the Office on a modified accrual basis in accordance with the Financial Regulations. Note 24 provided a reconciliation of the results presented under Statement II and Statement V-A. In reconciling IPSAS and the budgetary results, adjustments had been made for delays in the receipt of member States' contributions and reimbursement of the deficit for the previous biennium, which were included only in the budgetary calculation of the surplus.
4. Assessed contributions received from member States were some US\$19 million higher than the budgeted income level for the year and included arrears from previous financial periods that had been partially applied to reimbursement of the prior biennium's deficit of \$15.6 million. As was common in the first year of a biennium, expenditure was less than half of the approved budget, resulting in a notional surplus of some \$21 million. The Office

was confident that, owing to increased expenditure rates in the second half of the biennium, the budget would be fully delivered by the end of the current financial period.

5. The value of the consolidated net assets of the Organization had decreased over the previous 12 months by some \$60 million, mainly attributable to growth in the after-service health insurance (ASHI) liability owing to a further lowering of international interest rates. That decrease was, however, offset by an increase of some \$85 million in the value of the Organization's land and buildings. However, the working capital and liquidity positions of the Organization remained strong.
6. The recommendations contained in the External Auditor's long-form report (ILC.106/FIN) were broadly in line with initiatives and actions that were being pursued by the Office, which had engaged extensively with the External Auditor throughout the audit process.
7. Mr Aguinaldo, *Chairperson of the Commission on Audit of the Philippines*, presenting his first report as External Auditor and the results of the audit of the ILO's accounts for the year ended 31 December 2016, said that he was able to issue an unmodified audit opinion on the Organization's IPSAS-based financial statements for 2016. The audit included a performance review of the ILO's governance mechanisms, its programme delivery under the results-based approach and their impact on internal control across the Organization. In addition to its work at the ILO headquarters, his staff had conducted field work in other contexts, including the Regional Offices for Europe and for Asia and the Pacific, the Country Offices in Bangkok and Manila, the Staff Health Insurance Fund (SHIF) and the International Training Centre of the ILO, Turin.
8. In the area of accountability and ethics, the audit found that the ILO needed to enhance its accountability framework through improved monitoring and transparency. The Organization's policies concerning whistle-blowing, staff conduct and conflicts of interest and the 2009 Anti-fraud Policy should be updated for completeness and complementarity.
9. On results-based management, the ILO should assess the outcomes of its strategic objectives; develop guidance on the measurement of those outcomes and the related outputs, as well as a programme monitoring framework; and identify and prioritize the changes and other outcomes achievable within a given period, giving priority to outputs that contributed significantly to outcomes, and the links between outputs and outcomes should be presented with greater clarity.
10. The programme and budget document should better reflect the causal relationships between outputs, outcomes and impact and facilitate adoption of the theory of change and adaptation thereto. To further enhance individual accountability and responsibility, the Office should develop guidance on the preparation of mandatory workplans and enhance its enterprise risk management framework and policies. Existing internal control arrangements should be strengthened with a view to issuance of a Statement of Control, and controls should be linked more closely to assessed risks. Lastly, the Organization should further improve the monitoring and supervision of critical business processes in its regional and country operations.
11. His staff would continue to monitor implementation of the six pending recommendations made by his predecessor, the Auditor General of Canada, and would focus more closely on delivery of the centenary initiatives and on the Organization's business risks.
12. Ms Malik, *Chairperson of the Independent Oversight Advisory Committee (IOAC)*, reported on the Committee's review of the financial statements for 2016 and the External Auditor's report, noting that the Auditor General of Canada had been replaced as External Auditor by the Commission of Audit of the Philippines in a seamless transition.

13. All accounting policies had been applied consistently. Having received satisfactory replies from both the Office and the External Auditor on a number of points of technical clarification, the Committee had no technical accounting issues to bring to the attention of the Governing Body. It noted with appreciation the continued improvement in the quality of the report, which had become more analytical and easier to understand, and the concise narrative provided for the benefit of stakeholders.
14. The significant impact of the unfunded ASHI liability continued to erode the Organization's net assets. The Committee reiterated its recommendation that the liability should be funded.
15. Based on its review and discussion with the External Auditor, the Committee was satisfied that the risks identified in the 2016 audit plan had been satisfactorily addressed. It encouraged the Office to accelerate follow-up to the External Auditor's previous recommendations to the Governing Body. Having met with the External Auditor and his staff, it was confident of their independence, effectiveness and objectivity.
16. Lastly, she noted that the Office had once again achieved an unmodified audit opinion, with which the Committee concurred.
17. *The Worker spokesperson* noted with satisfaction that the External Auditor had expressed an unmodified audit opinion on the 2016 consolidated financial statements in accordance with IPSAS and that the Office planned to implement his recommendations in preparing the Programme and Budget for 2020–21. He noted that the issues raised therein must first be addressed by the Governing Body.
18. The External Auditor's comments reflected the fact that policy outcomes did not always serve the Organization's strategic objectives. Outcomes could be better measured through improved use of the decent work indicators in the next programme and budget document.
19. Lastly, his group welcomed the Office's follow-up to the recommendations of previous external audits, particularly with regard to the headquarters renovation project, enterprise risk management and risk registers.
20. *The Employer spokesperson* noted with appreciation that the ILO had received an unmodified audit opinion and commended the External Auditor and the IOAC for drawing attention to the growing unfunded ASHI liability, which accounted for the greater part of the Organization's consolidated deficit of \$21.8 million for 2016. His group looked forward to continued updates on that matter.
21. The continuing decline in total revenue of \$46.1 million as compared to 2015 and \$116.1 million as compared to 2014 was of particular concern since it resulted from a decrease in voluntary contributions owing to reduced delivery on development cooperation. It was vital to sustain and even increase the level of voluntary contributions from member States and other donors so that constituents' needs could be met.
22. While his group welcomed the Office's success in reducing staff, travel and other costs, it was concerned at the potential impact on constituents and staff of the significant reduction in the seminars and training expenditure from \$50 million in 2015 to \$39 million in 2016.
23. His group noted with appreciation the budgetary results for the first year of the current biennium, in particular the higher delivery rate of 95.29 per cent in 2016, as compared with 91.20 per cent in 2014. Since the normal pattern was to use less than half of the budget in the first year of the biennium, the Organization was making progress in minimizing that biennial bias in expenditure.

24. Lastly, it might be useful to determine whether all technical units and field offices had achieved the target of 60 per cent expenditure in the first year of the biennium; regular reporting to the Governing Body on results-based delivery would be greatly appreciated.
25. *Speaking on behalf of the group of industrialized market economy countries (IMEC)*, a Government representative of Canada said she was pleased that the consolidated financial statements for the year ended 31 December 2016 had been approved and that the External Auditor had been able to issue an unmodified opinion.
26. She thanked the Chairperson of the Commission of Audit of the Philippines for taking on the mandate of External Auditor and for his first report, which addressed many issues that merited further discussion and follow-up by the Governing Body. In particular, IMEC welcomed the discussion of vendor management and of the need to develop a vendor sanctioning policy in line with the parameters set out by the United Nations Joint Inspection Unit (JIU) and to update the whistle-blower protection procedure.
27. The External Auditor's observations on results-based management were relevant to the discussions on the results framework for the 2018–21 Strategic Plan and the follow-up to the Multilateral Organisation Performance Assessment Network (MOPAN) Survey that IMEC had initiated. Her group looked forward to the Office's progress in implementing the six pending recommendations of the previous audit and to further consideration of the current recommendations.
28. In closing, she welcomed the explanations provided by the Chairperson of the IOAC; the Committee's recommendations and comments were extremely useful and it was an important element of the ILO's oversight and governance functions.

Decision

29. ***The Governing Body took note of the External Auditor's report and forwarded the consolidated financial statements for the year ended 31 December 2016 and the External Auditor's report thereon to the Conference for consideration and adoption.***

(GB.329bis/PFA/1, paragraph 4.)

Geneva, 5 June 2017