



## Governing Body

323rd *bis* Session, Geneva, 1 June 2015

GB.323bis/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 323rd *bis* Session (June 2015)

### First item on the agenda

#### **Financial report and audited consolidated financial statements for the year ended 31 December 2014** (GB.323bis/PFA/1)

1. The Programme, Financial and Administrative Section of the Governing Body met on 1 June 2015. It was chaired by the Chairperson of the Governing Body. Mr Cortebeeck and Mr Mdwaba were the Worker and Employer spokespersons, respectively.
2. *A representative of the Director-General* (Director, Financial Management Department and Treasurer and Financial Comptroller) made brief introductory comments on the financial statements for the year ended 31 December 2014. He confirmed that the officers of the Board of the ILO International Training Centre in Turin had met in May 2015 and provisionally approved the Centre's financial statements for the year ended 31 December 2014, which were consolidated with those of the ILO. Regarding the External Auditor's long form report to the Governing Body, he stated that the Office has accepted all the recommendations put forward by the External Auditor.
3. With regard to the issue of the increase in value of the after-service health insurance (ASHI) liability, he indicated that the liability was an estimate, and did not represent either immediate or short-term expenditure needs. The liability would continue to fluctuate based on, among other factors, interest rate movements. If member States were to maintain their current policy of meeting that expense on a pay-as-you-go basis, there was no need for immediate concern, but he gave reassurances that the Office would remain fully engaged with the UN-wide review of all aspects of ASHI administration and management.
4. Ms McMahon, *Assistant Auditor-General of Canada*, presented the External Auditor's report and the results of the audit of the ILO's accounts for the year ended 31 December 2014. The report also contained observations and recommendations in two areas subject to performance audit work in 2014: implementation of the Integrated Resource Information

System (IRIS) in the Regional Office in Lima and the Country Office in Mexico, and the implementation of revised travel policy.

5. The External Auditor had submitted its draft audit plan to the Independent Oversight Advisory Committee (IOAC) in September 2014 and a summary to the Governing Body at its March 2015 session. Areas presenting an audit risk and posing concerns had been discussed with the IOAC. The financial statements had been presented fairly and in accordance with International Public Sector Accounting Standards (IPSAS). Consequently, the External Auditor had provided an unmodified opinion on the ILO's financial statements for the year ended 31 December 2014.
6. Satisfactory progress had been made in implementing the External Auditor's 2013 recommendations, although some work remained to be done in the area of governance. In particular, the External Auditor commended the ILO on the enhanced clarity and simplification of the financial statements and the inclusion of a Statement of Management Responsibility.
7. On the issue of the ASHI obligation of the ILO, she reported that the actuarial expert engaged to review the work conducted by the ILO actuary had not disagreed with any of the assumptions, methodologies, or results of the ILO actuary's work. The increase in the value of the obligation to over US\$1 billion was in large part due to changes outside the control of the ILO. Market pressures had pushed interest rates down and the discounting of the liability was driving the carry value upwards. Together with other UN organizations and agencies, the ILO was facing questions of unfunded liabilities and cost containment and its management was participating in the UN-wide review of possible solutions and would report back thereon to the Governing Body in early 2016.
8. An expert had also been engaged to review the evaluation of the ILO land and buildings and had observed no significant discrepancies.
9. With regard to the performance audit of the launch of IRIS in the Lima Regional Office and the Mexico Country Office, the auditors had suggested some minor improvements but, by and large, had been impressed with the results. With regard to the revised travel policy, while it had been possible to verify the changes made, the estimated savings were difficult to verify, as noted by the ILO management, since many of them were theoretical. Where the internal controls over information technology (IT) applications were concerned, the External Auditor indicated that some minor weaknesses remained, but overall progress had been satisfactory.
10. The External Auditor noted that ten of the 13 recommendations from past years had been fully addressed, and progress made on the remaining three. The ILO was encouraged to pursue the initiative to introduce a Statement of Internal Control, which would involve testing and reviewing the approach and responsibility for risk management, internal control and corporate governance.
11. In the area of governance, ILO management was in step with the UN and, on transparency and decision-making, might even be leading in the practical application of UN concepts. Organizational changes from the operational reform initiatives meant that the governance structure should be regularly revisited to ensure that changes were reflected throughout the organization's decision-making framework. In conclusion, she said that the External Auditor would continue to follow up on progress in addressing all its recommendations and provide annual reports thereon.

12. Ms Wild, *Chairperson of the Independent Oversight Advisory Committee (IOAC)*, reported on the Committee's review of the financial statements for 2014 and the External Auditor's report. The Committee had concluded that the ILO's implementation of the changes in accounting policies had been appropriate, thorough and conducted in a collaborative manner with the External Auditor. The Committee had received satisfactory replies from both the Office and External Auditor on a number of points of technical clarification and, accordingly, there was nothing of significance from an accounting point of view that it wished to bring to the attention of the Governing Body. It noted with approval the improvement in the readability of the financial statements, and encouraged the Office to pursue that process, further simplifying some technical accounting terms.
13. On the issue of the ASHI liability and its impact on the net asset position of the ILO, the IOAC accepted that calculation of the liability was beyond the control of the ILO and therefore welcomed the current UN-wide study of such health insurance schemes and the resulting future liabilities. It looked forward to seeing what measures could be considered to ensure that the unfunded liability of the ILO was well managed.
14. Based on its review and discussion with the External Auditor, the IOAC was satisfied that the risks identified in the 2014 audit plan had been satisfactorily addressed and that other areas of focus by the External Auditor, such as its performance audit work, added value to the ILO.
15. The IOAC was also pleased that the Office was taking a measured approach to the introduction of a Statement on Internal Control building on existing accountability processes, the first step of which was the introduction of a financial approval as set out on page 17 of the financial report.
16. In conclusion, the IOAC commended the Office on having once again achieved an unmodified audit opinion, and indicated that the Governing Body should feel confident to recommend that the Conference adopt the financial report and audited consolidated financial statements for the year ended 31 December 2014.
17. *The Worker spokesperson* noted with satisfaction that the External Auditor had expressed an unmodified audit opinion on the 2014 consolidated financial statements in accordance with IPSAS.
18. With regard to the weaknesses identified in the IT controls system, he welcomed the information that the ILO would implement all the recommendations made by the External Auditor in that regard by June 2015.
19. With regard to the ASHI liability, he looked forward to learning from ILO management in March 2016 about the results of the UN-wide review of the issue. He also welcomed the confirmation that, while some areas still needed improvement, IRIS was operating as intended in the two external offices where it had been introduced. Lastly, he took note of the Office's follow-up to the External Auditor's 2013 recommendations on governance practices, ASHI, the renovation of ILO headquarters, IT, human resources and finance operations.
20. *The Employer spokesperson* expressed satisfaction that the ILO had again received an unqualified audit opinion, in accordance with IPSAS, and that improvements had been made to the presentation and clarity of the financial statements.
21. The Employers strongly supported the recommendation that the ILO take steps to improve the IRIS user experience and alignment with its objectives. They welcomed the External Auditor's finding that ten of 13 previous recommendations had been fully implemented,

and strongly encouraged the Office to implement the three partially achieved recommendations on governance practices.

22. The Employers noted the External Auditor's concern about control activities and view that the ILO should start preparing a Statement of Internal Control, and looked forward to progress on its implementation as a key accountability initiative in 2016–17.
23. The group appreciated the Treasurer and Financial Comptroller's explanation of the ASHI liability, and agreed that it was an important topic and massive challenge that must be addressed through a consolidated approach. They looked forward to receiving further information when the Office reported on the results of the UN General Assembly's discussion of the matter at the 326th Session of the Governing Body (March 2016).
24. *Speaking on behalf of the member States of the group of industrialized market economy countries (IMEC) represented on the Governing Body*, a Government representative of Canada expressed his appreciation that the External Auditor was able to issue an unmodified opinion, that the ILO was continuing to fully apply IPSAS, and that the Office had been implementing the recommendation to simplify the financial reporting to facilitate better understanding by non-experts.
25. IMEC took note of the Office's responses to the External Auditor's recommendations in its long form report. Regarding travel cost issues, he noted the Auditors' comment that some of the estimated travel savings could not be measured, as they were based on hypothetical costing. He encouraged continued efforts to harmonize ILO travel policies with those of other UN organizations.
26. While acknowledging that the value of the ASHI liability and its variability were based on a number of factors that were beyond the control of the ILO, IMEC members remained concerned that the liability was significant and without a clear resolution, and looked forward to consideration of the issue at the 326th Session of the Governing Body (March 2016), following discussions within the wider UN system. Should those discussions fail to lead to a system-wide solution or approach, IMEC members expected the ILO to work on addressing the liability, including measures on cost-containment, and present a way forward at the 326th Session.
27. He welcomed the full implementation of the 2010 and 2011 recommendations on human resources. Regarding the 2013 recommendation on the implementation of a statement of internal control, he noted that this would require several years, given the complexity of ILO global operations. He noted the intention to make the statement a key accountability initiative in 2016–17, and looked forward to receiving an update on the issue in 2016.
28. In view of the short time available before the meeting of the Conference Finance Committee of Government Representatives, the Governing Body authorized Mr Correia, as Chairperson, to adopt the report on its behalf.

## **Decision**

29. ***The Governing Body took note of the External Auditor's report and submitted the financial statements for the year ended 31 December 2014 and the External Auditor's report thereon to the Conference for consideration and adoption.***

(Document GB.323bis/PFA/1, paragraph 4.)

Geneva, 1 June 2015