International Labour Organization

Governing Body

350th *bis* Session, Geneva, 3 June 2024

Minutes of the 350th *bis* Session of the Governing Body of the International Labour Office

Contents

▶ Programme, Financial and Administrative Section

1. The Programme, Financial and Administrative Section of the Governing Body met on 3 June 2024. It was chaired by Ambassador Adejola (Nigeria), the Chairperson of the Governing Body. Mr Matthey was the Employer spokesperson, and Mr Dimitrov and Ms Chipeleme were Worker spokespersons.

Programme, Financial and Administrative Segment

1. Programme and Budget for 2022–23: Financial report and audited consolidated financial statements for the year ended 31 December 2023 (GB.350*bis*/PFA/1)

2. **A representative of the Director-General** (Treasurer and Financial Comptroller) made brief introductory comments on the financial statements for the year ended 31 December 2023. He confirmed that the Officers of the Board of the International Training Centre of the ILO in Turin (Turin Centre) had met on 22 May 2024 and had adopted the Centre's financial statements for the year ended 31 December 2023.

3. The ILO's consolidated financial statements incorporated the full scope of the Organization's activities, those funded through the regular budget and those funded from development cooperation extrabudgetary sources, as well as controlled entities. The statements had been prepared in compliance with the International Public Sector Accounting Standards (IPSAS) on a full accrual basis and reflected the financial activity for 2023. The first section of the statements provided a financial report on the activities and challenges in the period, and a summary of the financial highlights and performance. In that regard, he was pleased to report that the level of assessed contributions remained consistent and that the overall financial position of the Office remained stable. The second section of the statements contained the Statement of Internal Control, which provided details on the level of assurance and measures taken on the Office's internal control framework. With respect to the regular budget, Statement V-A reported on the financial performance of the Office against Member States' assessed contributions. Statement V was prepared on a modified accrual basis, in line with the provisions of the Financial Regulations. Note 22 to the financial statements provided a reconciliation of the results presented under Statement II and Statement V.

4. The External Auditor's long-form audit report was contained in section 6. The Office had engaged extensively with the External Auditor throughout the audit process. It had accepted the recommendations and was working on their implementation. The Office's summarized responses to the Auditor's recommendations were included in the body of the report. A more detailed follow-up for the consideration of the Governing Body would be produced in due course.

5. **The External Auditor** (Chairperson of the Commission on Audit of the Philippines), presenting his report for the year ended 31 December 2023, noted that the audit had been conducted in conformity with the International Standards on Auditing, to provide an independent assurance on the fair presentation of the financial statements, support the enhancement of transparency and accountability within the Organization, and contribute to the achievement of its operating objectives. The report focused on three areas: first, the comprehensive audit of the financial

statements and transactions for 2023; second, a review of the operations of the Office of Internal Audit and Oversight (IAO); and third, a review of the control environment in eight ILO field offices.

6. The comprehensive audit had concluded that the financial statements fairly presented the financial position of the ILO for the year ended 31 December 2023, in accordance with IPSAS. Accounting policies had been applied on a basis consistent with that of the preceding year, and an unmodified audit opinion had therefore been issued. He welcomed the efforts made by ILO management to address audit recommendations received during the interim and year-end audits and commended the Treasurer and Financial Comptroller and his team for ensuring that an unmodified audit opinion had consistently been achieved.

7. The review of the IAO had ascertained that it needed to focus more on the overall governance and risk management processes and conduct an assurance mapping exercise to ensure the optimal adequacy of its audit coverage. The IAO needed to update its Charter and revise its standard operating procedures and internal audit manual to align with its strategy, as well as to codify certain practices. The IAO also needed to improve on the achievement of its targets and intake channels for reporting and receiving allegations, alongside the reporting process for internal audit and investigation functions. It also needed to develop and maintain a formal quality assurance and improvement programme, to ensure that its activities operated effectively and followed professional standards. Lastly, the IAO needed to raise awareness of its functions among stakeholders, in order to obtain better inputs into its decisions.

8. The audit of the field offices had highlighted some weaknesses within the processes, and monitoring and review activities, with non-adherence to established standards, policies, rules and regulations. They had therefore recommended that the ILO enhance its governance mechanisms for field offices by strengthening the process controls and monitoring and feedback loops, in order to improve efficiency and effectiveness.

9. In sum, 18 audit recommendations had been provided and agreed to.

10. In addition, he drew attention to the Capstone Report, which summarized the contributions of the Philippine Commission on Audit over the past eight years, as he concluded his mandate as External Auditor. His office had contributed to enhancing the ILO's financial reporting processes, including its IPSAS-based financial statements, through a systematic and structured approach, which had ultimately built stakeholders' confidence. They had comprehensively examined the Organization's governance policies and frameworks, helping to cultivate a culture of good governance. They had reviewed the programme management policies and practices and helped enhance results-based management policies, as well as improving programme management in field offices, resulting in more resilient programme delivery and enhanced results accountability. They had audited several management areas, both at Headquarters and in field offices, resulting in improved procurement activities, human resources practices, travel management, asset management and control, management of petty cash, and grants reporting, more effective strategies to reduce backlogs in fraud cases, more accountable tripartism and strengthened independent assurance and investigations functions. Routine visits to ILO field offices had provided a more complete perspective. In addition, they had reviewed the projects funded by the United States Department of Labor, with a focus on performance reporting, which had resulted in enhanced monitoring, more efficient budgeting, streamlined documentation and better results accountability.

11. **The Chairperson of the Independent Oversight Advisory Committee (IOAC)** reported on the IOAC's review of the Financial Report, the financial statements for the year ended 31 December 2023 and the Report of the External Auditor. In its review of the Office's Statement of Internal Control, the IOAC had discussed with management the significant internal control matters that had arisen during the year, including the need to strengthen the accountability and capacity for the delivery of extrabudgetary development cooperation projects, and the need to enhance the effectiveness, efficiency and sustainability in the fulfilment of the internal audit and oversight functions. It drew attention to the areas identified as needing continued monitoring or further work and expressed satisfaction with the rigour with which the statement had been produced. It also commended management on the open discussion on the areas requiring further work.

12. The IOAC had reviewed with management the financial statements for the year ended 31 December 2023. The Committee had reviewed an early draft and was satisfied with the changes that had been made in response to its feedback. It was important to note the fact that voluntary contributions now accounted for half the programme-related revenue reported by the Office. The Office had again achieved an unmodified audit opinion on the consolidated financial statements for the year ended 31 December 2023, and the external audit plan had been fully executed.

13. The specific issues addressed with the external auditors had included the assurance that the major changes in assumptions used in the preparation of key estimates such as the After Service Health Insurance (ASHI) valuation were appropriate and consistent with other United Nations entities. With regard to the areas identified as needing improvement in their review of the IAO, the Committee supported the recommendations relating to the need to focus on reviewing overall governance and risk management processes, as well as the need to codify certain existing practices. With the upcoming retirement of the Director of the IAO, the review could be used to help direct the efforts of the incoming replacement. The Committee would continue to follow up on those issues. Lastly, the Committee noted the milestones achieved and value delivered over the term of the External Auditor, as detailed in the Capstone Report.

14. With regard to the proposed amendments to the terms of reference of the IOAC contained in document GB.350*bis*/PFA/2, the Committee would support whichever of the two options presented was adopted, but believed that an ongoing rotation of one member per year would be the best way to ensure a smooth transition of knowledge.

15. The IOAC recommended that the Governing Body forward the audited consolidated financial statements for the year ended 31 December 2023 and the External Auditor's report to the International Labour Conference for consideration and adoption.

16. **The Employer spokesperson** thanked everybody for their work and said that he could accept the draft decision.

17. **The Worker spokesperson** took note of the External Auditor's unmodified audit opinion on the consolidated financial statements. He congratulated the Office on significantly lowering the budget deficit to US$0.736 million, largely as a result of a positive return on investments in 2023. He welcomed the new approvals of voluntary funding and thanked all governments that had contributed to increasing voluntary funding to an unprecedented level and now amounted to US$175.53 million, in particular the two substantial donor agreements amounting to US$158.13 million.

18. With regard to the report of the External Auditor, in particular the review of the operations of the IAO, it was good to see that the IAO had agreed to most of the recommendations, including the review and update of several working documents and guidelines. However, there was potential for a more effective programme to raise awareness across the Office of the investigation function, procedures and processes. With regard to governance in field offices, it was important to strengthen control activities and risk management through capacity-building of staff. Staff awareness appeared to be lacking on several issues. The measures outlined in the Office's response were sorely needed. In particular, he welcomed the professional training programme in collaboration with the Chartered Institute of Public Finance and Accountancy (CIPFA) aimed at upgrading the technical skills of staff during the 2024–25 biennium. In addition, the gaps relating to the implementation of Decent Work Country Programmes and Development Cooperation projects should also be addressed.

19. Lastly, he continued to stress the importance of follow-up to audit recommendations from previous years. He welcomed the follow-up and implementation of the recommendations relating to the review of the operations of the Bureau for Employers' Activities (ACT/EMP) and the Bureau for Workers' Activities (ACTRAV). Indeed, 10 of the 37 recommendations were linked to that audit. He noted that recommendations 19 and 20 in the list of external audit recommendations from previous years, relating to control environment in the field offices, were similar to those addressed in the report for 2023. The Office should ensure that the control environment in field offices in general was addressed, since it appeared to be a general concern and could also be an issue in offices that had not been audited.

20. He supported the draft decision.

21. **Speaking on behalf of the Asia and Pacific group (ASPAG)**, a Government representative of the Islamic Republic of Iran, acknowledging the Organization's ongoing work to implement the recommendations of the External Auditor, said that he would appreciate further information on the reasons behind the significant increase in expenditure on staff and subcontractors. He suggested undertaking an analysis of the factors that contributed to the increase, such as changes in staffing levels, salary adjustments, outsourcing requirements and project-specific needs, and developing strategies to optimize expenses while maintaining operational efficiency. It would be useful to have additional information about the two substantial donor agreements, including the purpose, duration, specific conditions or performance obligations and risks or uncertainties that could affect the collectability of the receivables.

22. He would appreciate an explanation of the new forward-looking model, including key assumptions and inputs, used to estimate the allowance for the doubtful collection of assessed contributions receivable. Lastly, he would welcome an outline of the Organization's strategies and plans to address increases in the Tashi liabilities. He expressed support for the decision.

23. **Speaking on behalf of the group of industrialized market economy countries (IMEC)**, a Government representative of the United States of America, said she was pleased that the Organization had received an unqualified audit opinion. Management should continue to prioritize transparency and accountability in its work. She commended management for maintaining cash equivalents and investments. However, she noted with concern the increase in after-service health insurance liabilities, which accounted for 57 per cent of all liabilities, and the continuing backlog of internal investigation cases. She called on the Office to allocate sufficient surge capacity resources to the Office of Internal Audit and Oversight without delay and to report on progress made in addressing the backlog. With regard to sexual harassment, it was noted that there was some complexity of the internal reporting lines, leading to challenges in handling sexual harassment cases to ensure that investigations were carried out in a timely fashion. She strongly encouraged the Office to expedite negotiations with the Staff Union to address these issues. Her group supported the draft decision.

24. **The representative of the Director-General** (Treasurer and Financial Comptroller) said that the Office expected to complete its ongoing review of its policies related to governance by the next Governing Body meeting. Accounting training was being provided to field staff to ensure compliance and the Office provided full reports on the follow-up of audit recommendations regarding development cooperation work.

25. The increase in expenditure related to staff costs and subcontracts had been due to increases in overall staff and subcontracting costs. Two countries had made significant multi-year contributions, which had been included with an associated liability in accordance with the Office's policies under the International Public Sector Accounting Standards (IPSAS).

26. Under the expected credit loss model that had been introduced in line with IPSAS 41, a predictive model was used to determine the allowance for expected credit loss, this differed from the historical method used. This is covered in Note 3 of the Financial Statements. Over the previous four years, more than 99 per cent of assessed contributions had been received. The way in which the contributions were recorded in the financial statements had changed to reflect this, but the amount had varied little with the introduction of the new model.

27. As the Organization used the pay-as-you-go funding model of the United Nations General Assembly for ASHI, the cost of the insurance fluctuated as requirements changed. An independent actuary had considered items such as health costs and mortality rates to determine future changes. ASHI was assessed in the regular budget only for regular staff and the Development Cooperation (DC) funds allocated to ASHI was managed through a separate portfolio by an investment manager. Returns from the fund would be used to cover future costs and liabilities for DC officials. The Office had gone to great lengths to minimize ASHI costs, which had increased throughout the world as a result of the COVID-19 pandemic. The Director-General was very much aware of the need to provide the Office of Internal Audit and Oversight with additional resources to conduct internal investigations and would continue to do so. Lastly, with regard to sexual harassment the Office took note of the concerns raised and would review the processes.

Decision

28. **The Governing Body took note of the External Auditor's report and forwarded the consolidated financial statements for the year ended 31 December 2023 and the External Auditor's report thereon to the International Labour Conference for consideration and adoption at its 112th Session.**

(GB.350*bis*/PFA/1, paragraph 4)

Audit and Oversight Segment

2. Proposed amendments to the terms of reference of the Independent Oversight Advisory Committee (GB.350*bis*/PFA/2)

29. **The Worker spokesperson** expressed her concern that the Independent Oversight Advisory Committee had proposed revising its own terms of reference regarding mandatory membership rotation, as the continuous rotation of members was important to safeguard independence and impartiality. However, she acknowledged the significant gap in institutional knowledge that was an inevitable outcome of the renewal of three of the five members at the same time, and applauded efforts to address the issue. She welcomed the fact that there was no impact on the budget and expressed her preference for Option A, since it would involve less deviation from existing rules. She approved of the changes specifying the Committee's role in advising the Governing Body and the Director-General on ethics, the additions related to knowledge and skills, and the proposal to consult with current members on potential new candidates during the selection process. She could accept the changes to allow the Committee to meet more than four times, provided that it did not increase the budget requirements.

30. **The Employer spokesperson** expressed his preference for Option B, given that it would offer more stability over time.

31. **Speaking on behalf of IMEC**, a Government representative of the United States of America, welcoming the update of the terms of reference to improve quality and continuity of oversight, suggested that the Committee should, at a future session, consider whether the pool of four candidates on the reserve list was sufficient. In the interests of a timely transition that respected members' original commitment to a three-year term on the Committee, her group would support Option A, and she would appreciate an explanation of how the member to be extended for one year would be selected. While it had been agreed to place the present item on the agenda of the 350th *bis* Session of the Governing Body, she stressed the need for advance planning to avoid overloading the agenda of the June session. In closing, she expressed support for the decision, with a preference for Option A.

32. **The representative of the Director-General** (Treasurer and Financial Comptroller) said that the Committee would be responsible for deciding among themselves who would serve an additional year. He took note of IMEC's suggestion regarding the reserve list.

33. **The Employer spokesperson** said that, in the spirit of consensus, he would accept Option A.

Decision

34. **The Governing Body :**

(a) **approved the proposed amendments to the terms of reference of the Independent Oversight Advisory Committee, as contained in the Appendix to document GB.350*bis*/PFA/2, which would take effect as of the date of approval;**

(b) **approved Option A of the Committee's future membership rotation as per paragraph 4(a) of document GB.350*bis*/PFA/2.**

(GB.350*bis*/PFA/2, paragraph 8, as amended by the Governing Body)