

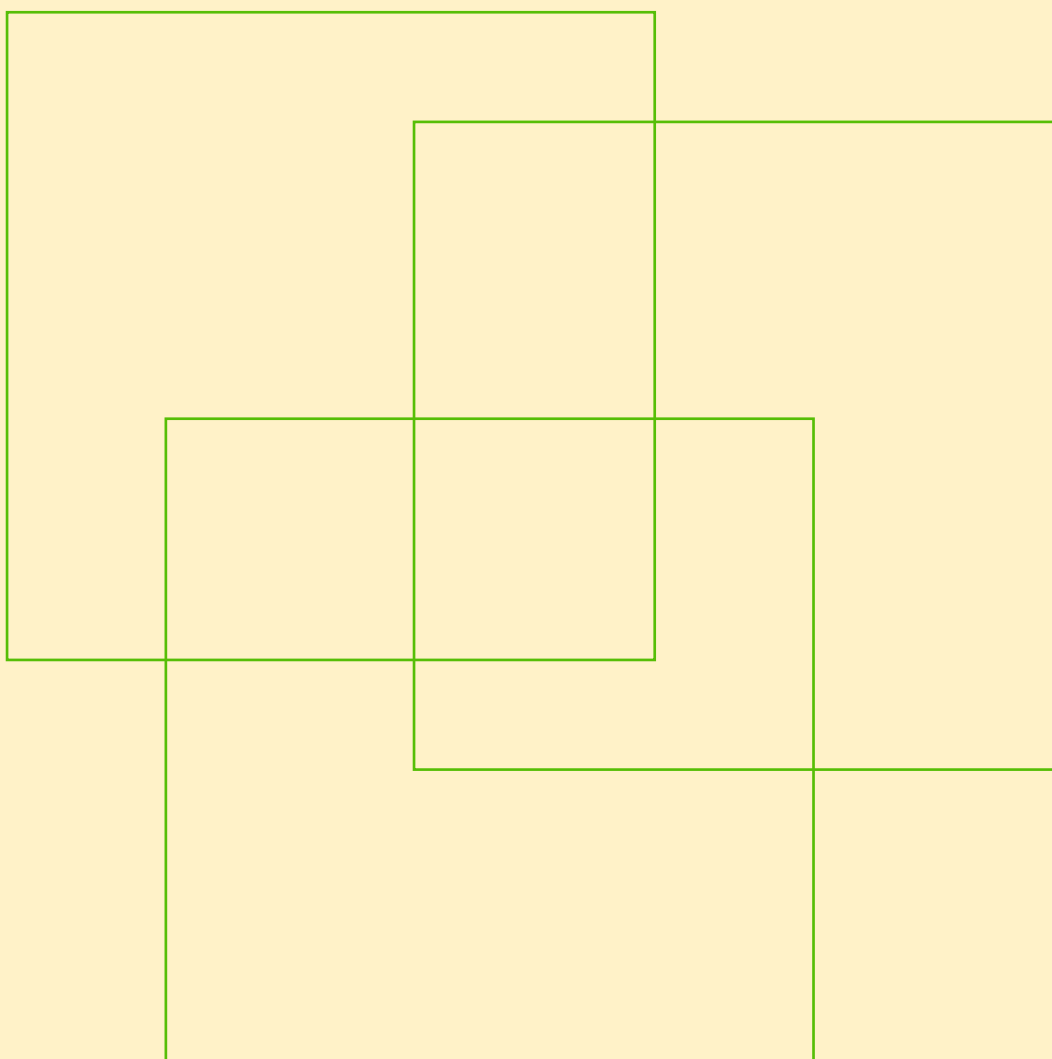


International
Labour
Office

Geneva

Financial report and audited consolidated financial statements for the year ended 31 December 2016

and Report of the External Auditor



International Labour Organization

Financial report
and audited consolidated financial statements
for the year ended 31 December 2016

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International Labour Office, Geneva

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1. Financial report on the 2016 accounts

Introduction

1. The 2016 consolidated financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and consolidate all of the operations under the direct authority of the Director-General including the regular budget, extra-budgetary funded activities, the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR), the International Training Centre of the ILO (ITC), the Administrative Tribunal of the ILO and the ILO Staff Health Insurance Fund (SHIF) activities related to the International Labour Organization (ILO) officials and retirees.
2. The Financial Regulations specify a biennial financial period; however for general purpose financial reporting in accordance with IPSAS, annual financial statements are presented. For the purpose of actual versus budget comparisons, in Statements V-A to V-C the final annual budget amounts for 2016 represent one half of the approved biennial budgets.
3. The financial statements prepared under IPSAS use full accrual-based accounting which requires the recognition of transactions and events when they occur. In particular, revenue from voluntary contributions to development cooperation is recognized when the ILO delivers the services specified in the agreement with the donor, rather than when cash is received or pledged. Expenses are recognized when services or goods are received or delivered rather than when cash is paid. The value of future employee benefits such as accumulated leave, repatriation entitlements, and after-service health insurance (ASHI) is recognized in the financial statements in the period when these benefits are earned by ILO staff rather than when they are paid.
4. Reporting general purpose financial statements on an IPSAS basis has no impact on the preparation or reporting of the ILO regular budget result, which continues to be presented on a modified cash basis in accordance with the Financial Regulations. As the basis of the budget and the financial statements differ, a reconciliation between the budget and the IPSAS statement of financial performance is presented in note 24 to the financial statements.



Financial highlights for 2016

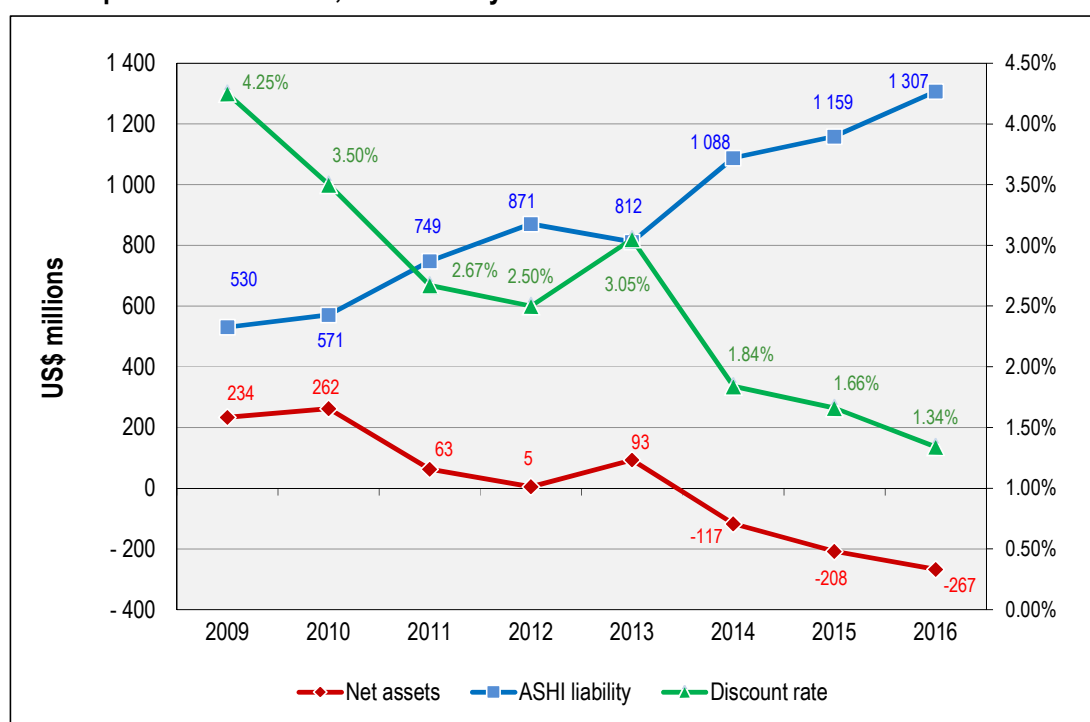
5. The table below summarizes the financial situation of the ILO in 2016 as compared to 2015 and 2014 (the second year of the previous biennium):

(US\$ millions)	2016	2015	2014
Revenue	655.0	701.1	771.6
Expenses	(674.9)	(757.8)	(713.0)
Foreign exchange gains/(losses)	(1.9)	12.5	(55.7)
Surplus (deficit)	(21.8)	(44.2)	2.9
Assets	1 717.1	1 607.8	1 686.6
Liabilities	1 984.1	1 816.3	1 803.7
Net assets	(267.0)	(208.5)	(117.1)

6. The consolidated deficit for 2016 is US\$21.8 million as compared to a deficit of US\$44.2 million in 2015 and a surplus of US\$2.9 million in 2014. An analysis of revenue and expenses is provided in the following sections.

7. The decrease in net assets from negative US\$208.5 million in 2015 to a negative US\$267 million in 2016 is mainly attributable to an increase in the ASHI liability, partially offset by an increase in the fair value of land and buildings. Figure 1 illustrates the correlation between the net assets, ASHI liability and the discount rate used by the independent actuaries to value ASHI. Further information on the most significant movements in assets and liabilities, in particular ASHI, is provided later in this report. The consolidated statement of changes in net assets (Statement III) provides the details of the movements in net assets.

Figure 1. Comparison: Net assets, ASHI liability and discount rate

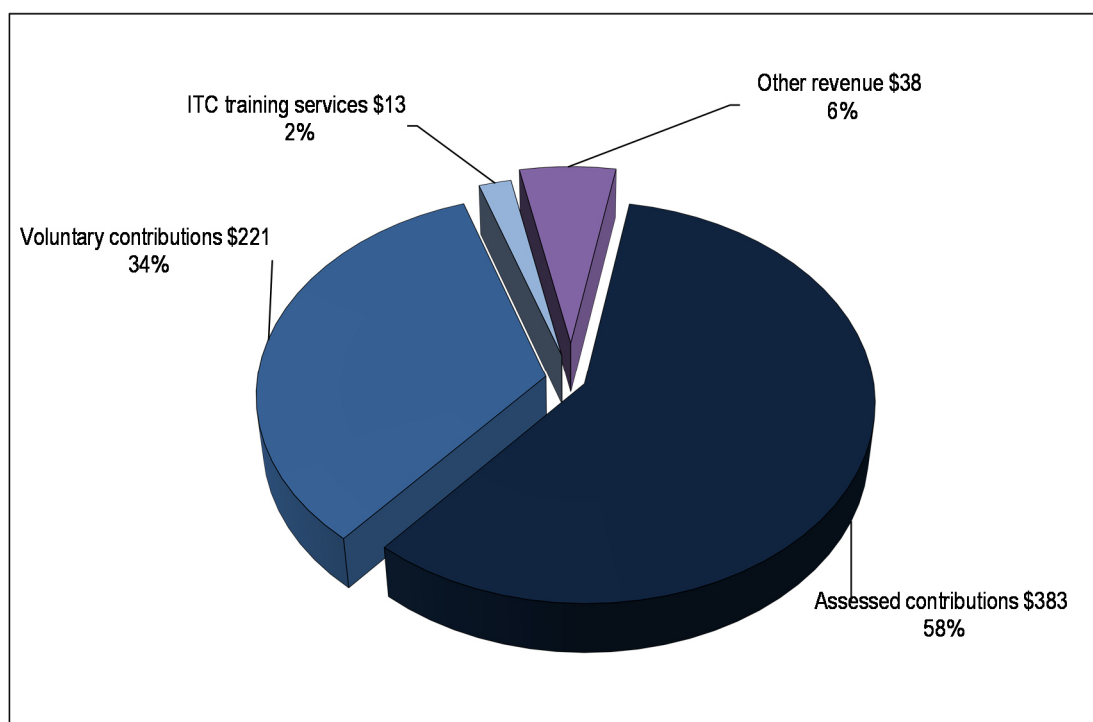


Financial performance

Revenue

8. Revenue in 2016 totalled US\$655 million (US\$701.1 million in 2015) and is composed as follows:

Figure 2. Revenue by source, 2016 (US\$ millions)

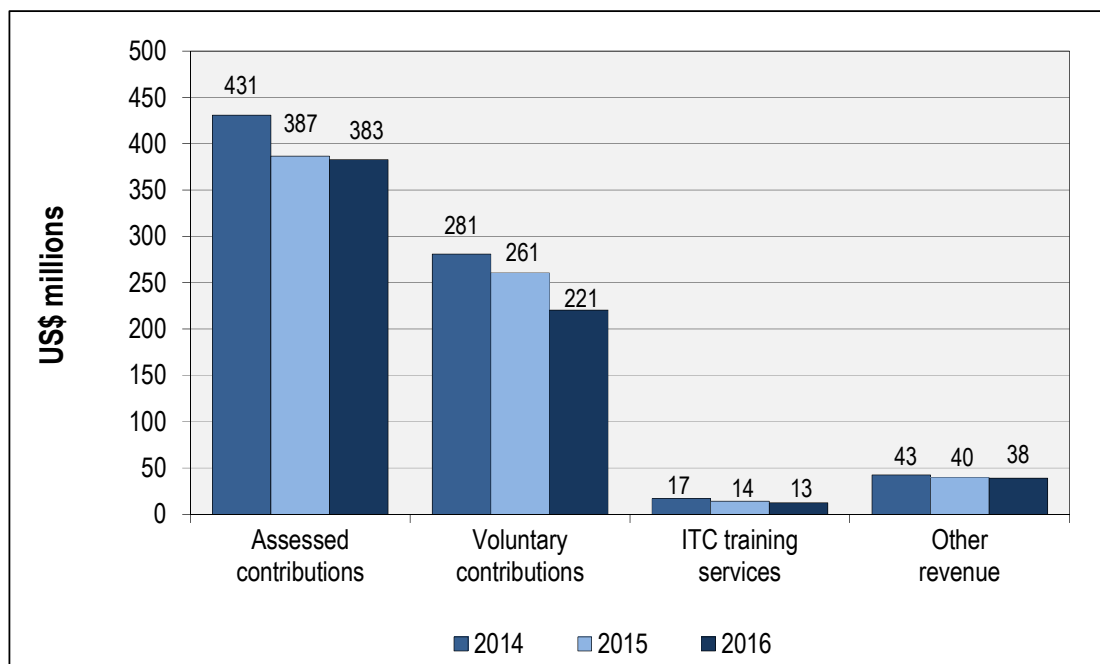


9. The two principal sources of revenue in 2016 were assessed contributions from member States and voluntary contributions. These represent 92 per cent of ILO revenue.

10. As shown in figure 3, the net decrease in total revenue of US\$46.1 million, or 6.6 per cent as compared to 2015, results principally from a decrease in voluntary contributions earned of US\$40.0 million, due to reduced development cooperation delivery when measured in monetary terms.

11. Other revenue includes increased investment income of US\$4.2 million due to an increase in the overall level of available funds invested on classes of assets with longer maturity and higher interest rates, but in comparative terms has been offset by the one-off gain on sale of investment property reported in 2015 of 6.1 million.

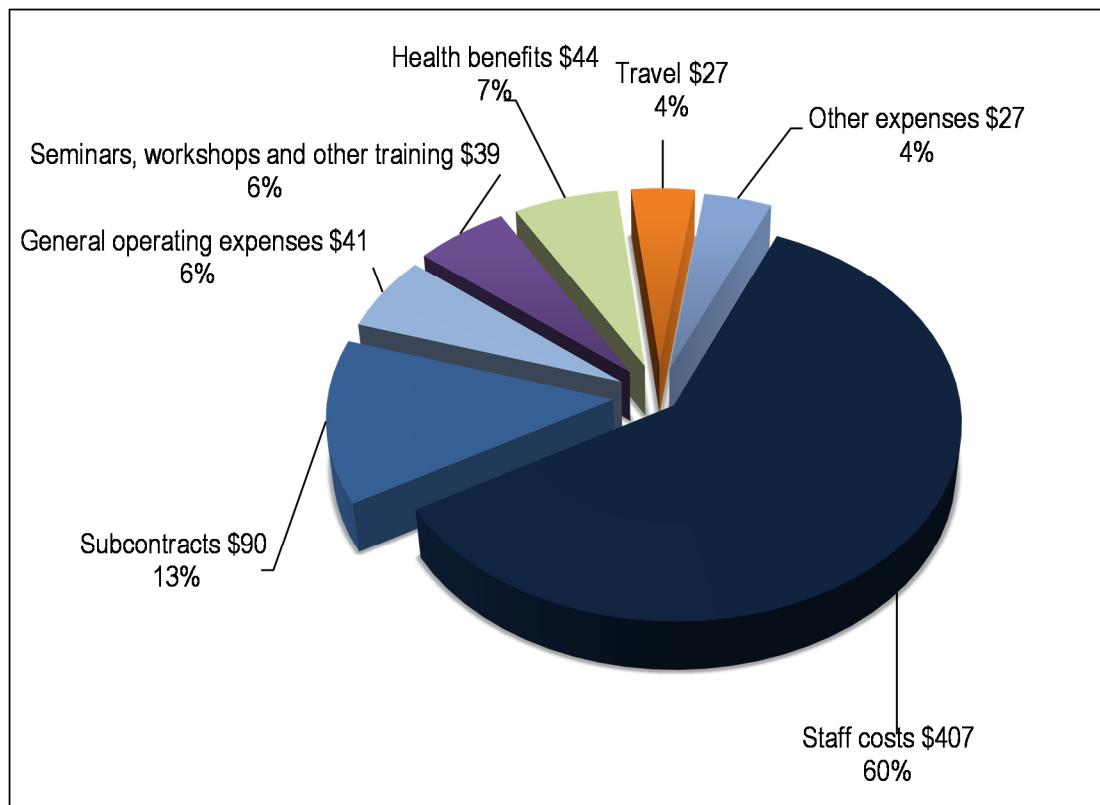
Figure 3. Revenue sources, three-year comparison



Expenses

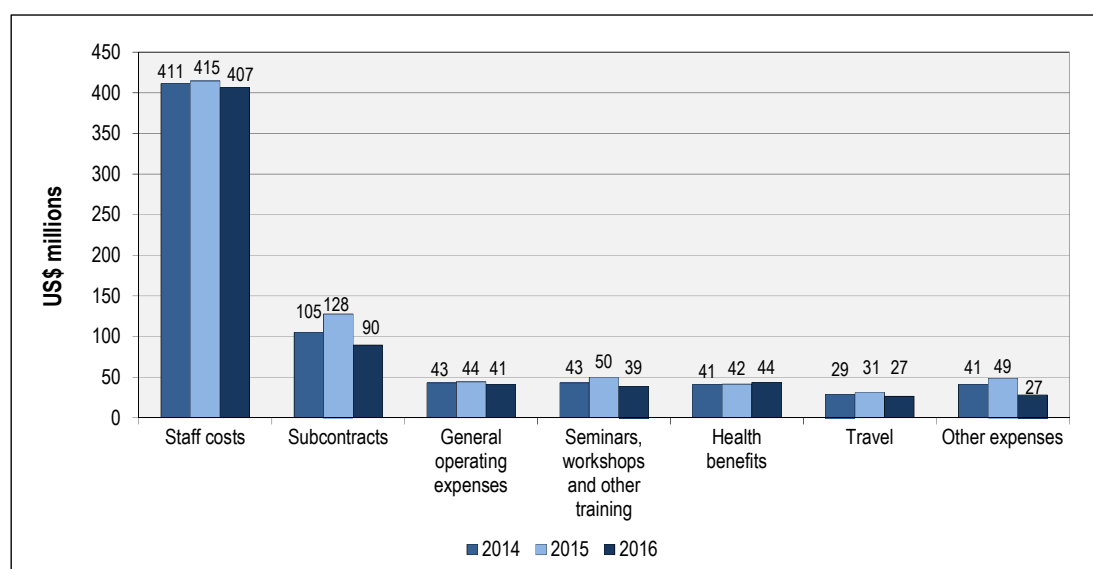
12. Expenses in 2016 totalled US\$674.9 million (US\$757.8 million in 2015) and were distributed as follows:

Figure 4. Expenses in 2016 (US\$ millions)



13. Figure 5 provides a three-year comparison by main expense categories:

Figure 5. Expenses, three-year comparison



14. In 2016, expenditure decreased by US\$83 million or by 10.9 per cent as compared to 2015. This was consistent with the ILO's historic pattern of comparatively lower expenditure in the first year of a biennium. The comparative decreases in subcontracts and seminars and workshops expenditure resulted from lower delivery in absolute terms for development cooperation projects and also contributed to the overall reduction in expenditure.

Foreign exchange gains/losses

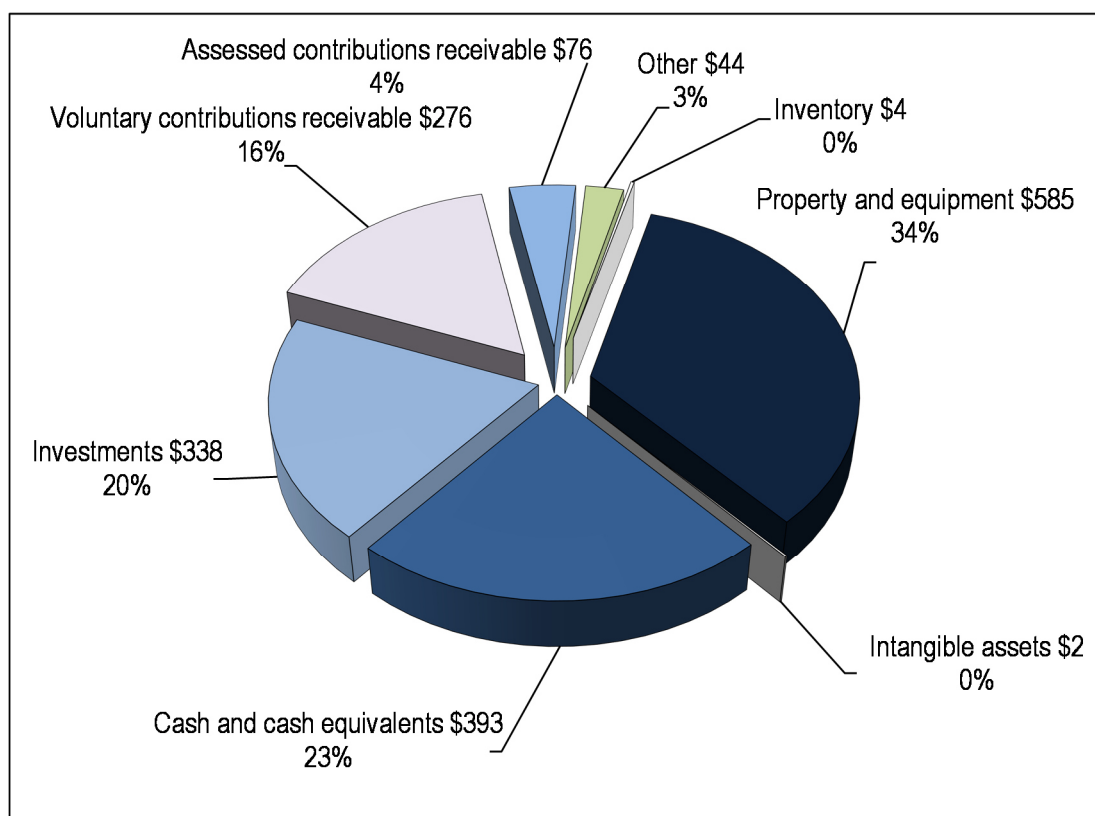
15. In line with the recommendation of the UN Task Force on Accounting Standards, net exchange gains and losses previously presented under revenue or expenses have been presented as a separate line in Statement II. In accordance with the Financial Regulations and decisions of the International Labour Conference (ILC), exchange movements relating to the regular budget are managed through the net premium account, netting off gains and losses and providing protection to member States. They are not recorded as a revenue or expense item in Statement V but are accumulated in the net premium account which is returned to the member States at the end of each biennium.

Financial position

Assets

16. Assets as at 31 December 2016 totalled US\$1,717.1 million (US\$1,607.8 million as at 31 December 2015) as follows:

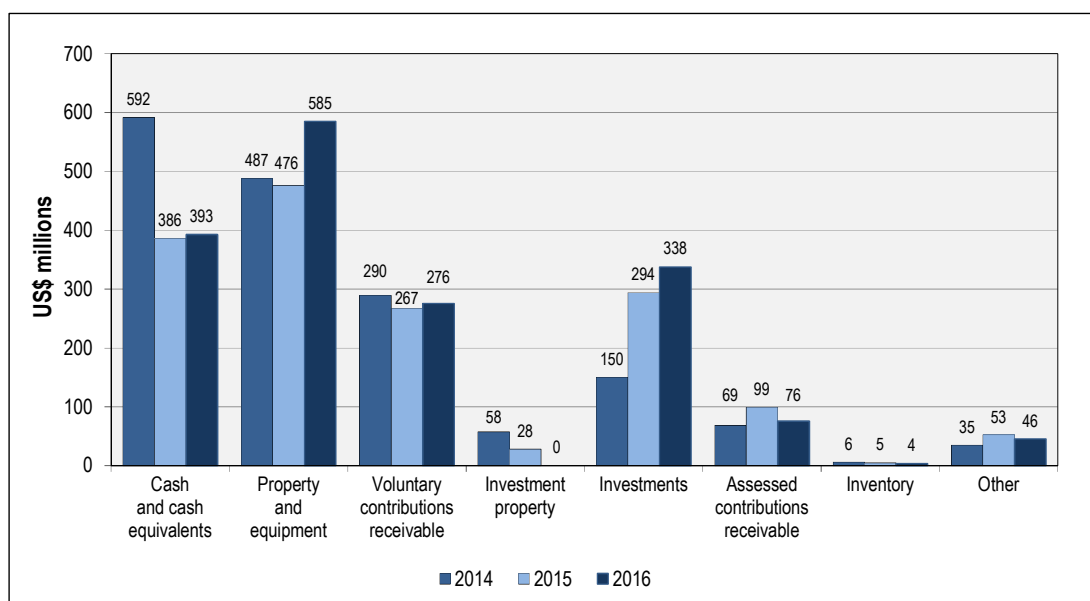
Figure 6. Assets (US\$ millions)



17. Cash, cash equivalents and investments totalling US\$730.7 million (US\$679.8 million as at 31 December 2015) were the largest component of assets as at 31 December 2016 representing 42.6 per cent of the total assets. Of this amount, US\$211.8 million or 28.9 per cent (US\$178.4 million or 26.2 per cent at 31 December 2015) corresponded to funds held on behalf of donors for development cooperation projects. Property and equipment and voluntary contributions receivable were the two other significant asset components.

18. Figure 7 provides a three-year comparison by asset category:

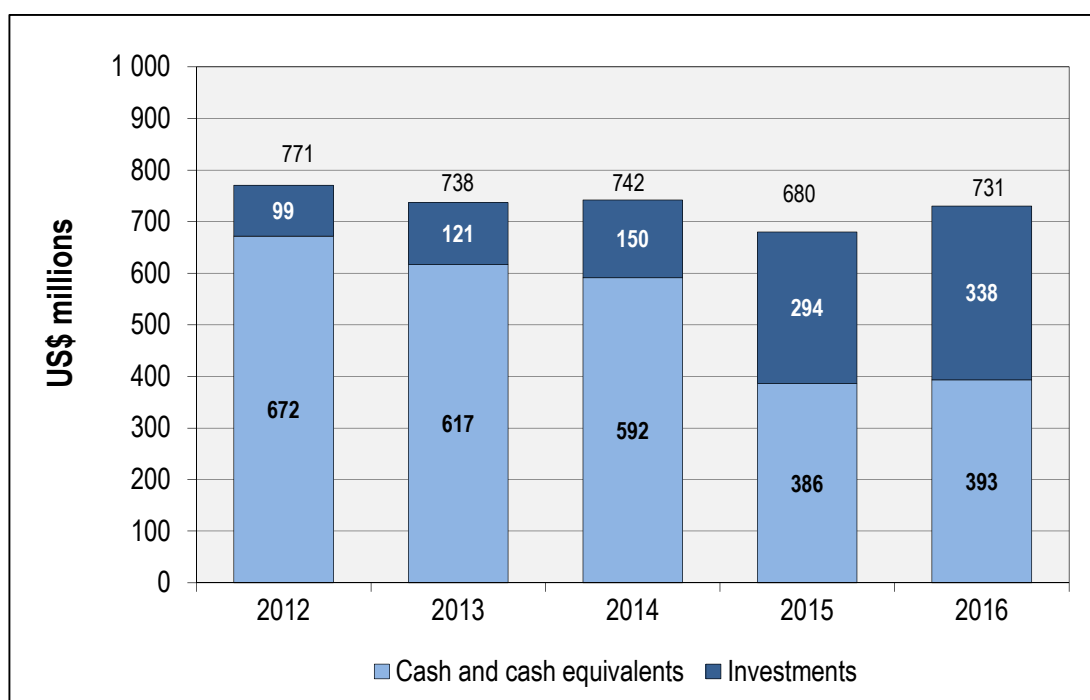
Figure 7. Assets, three-year comparison



Cash, cash equivalents and investments

19. The overall level of cash, cash equivalents and investments was distributed as follows:

Figure 8. Consolidated cash and investments



20. The overall level of cash, cash equivalents and investments increased by US\$50.9 million or by 7.5 per cent as compared to 2015. The increase mainly results from the net increase in the funds held on behalf of donors for development cooperation projects and a higher collection rate of current year assessed contributions in 2016 (figure 10).

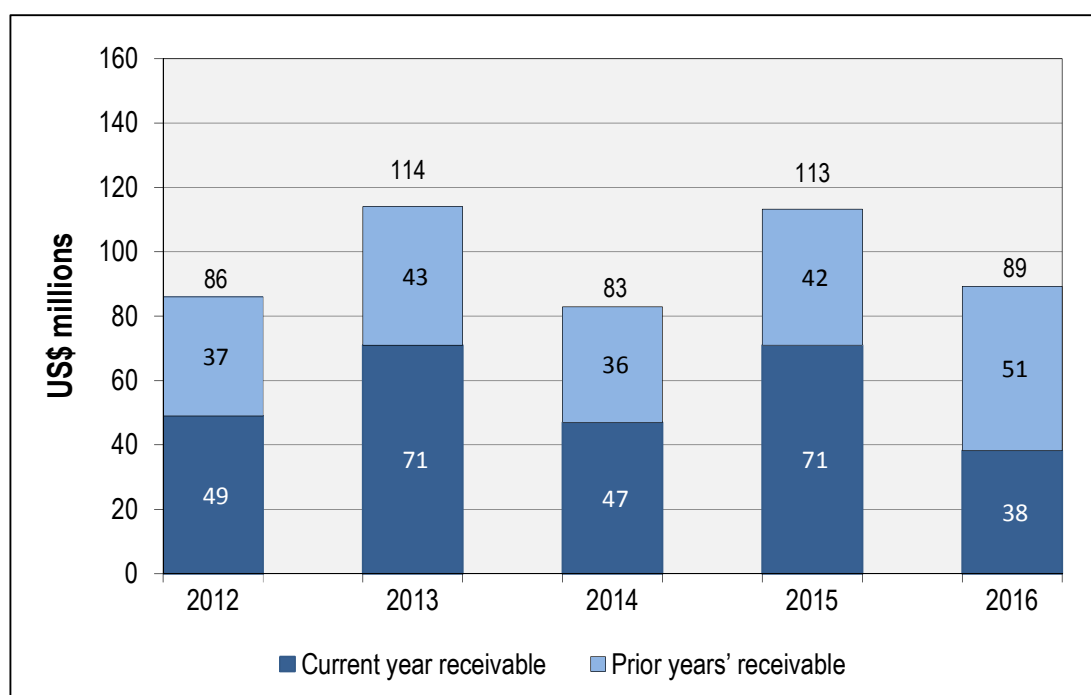
21. Following the increase in the overall level of available funds, the ILO has taken the opportunity to invest in additional short-term deposits at a duration longer than 90 days which are classified as investments.

Assessed contributions receivable

22. Due to the higher collection rate on current year contributions in 2016, the level of assessed contributions receivable decreased by US\$24 million to US\$89 million as at 31 December 2016, prior to the required adjustment for member States which had lost the right to vote. This was in line with the ILO's historic pattern of comparatively higher collection rate on contributions in the first year of the biennium.

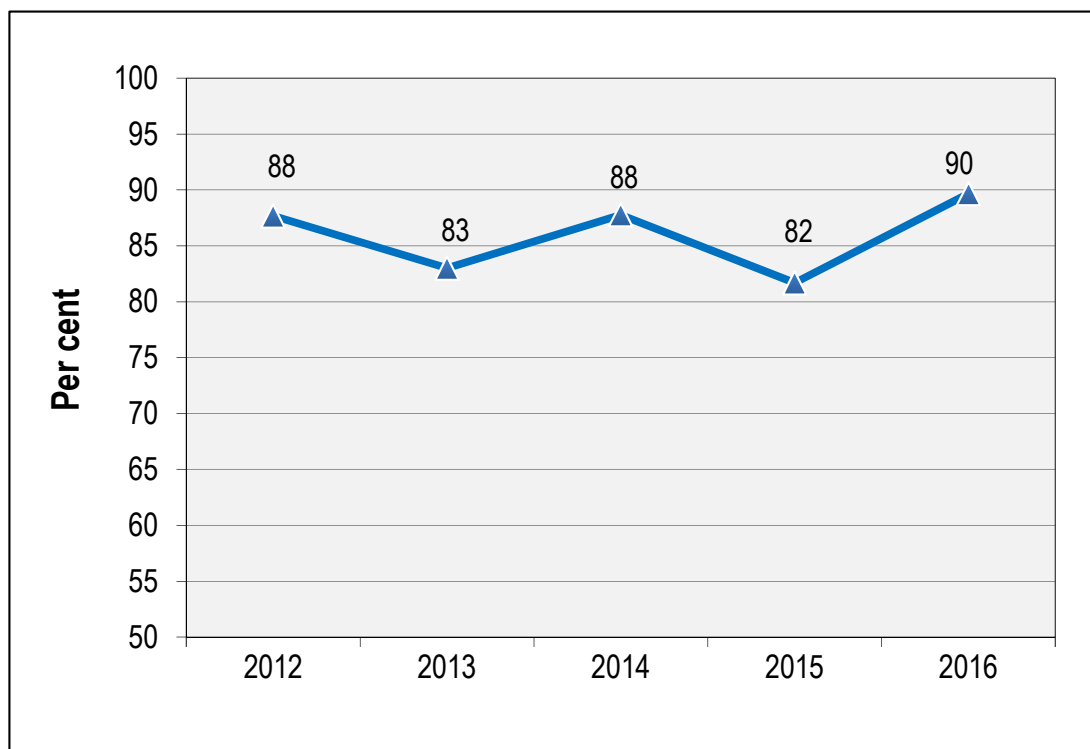
23. Figure 9 summarizes the assessed contributions receivable balances and their components at the end of each of the last five years:

Figure 9. Assessed contributions receivable



24. The trend in collection rate for current year assessed contributions is reflected in figure 10 below:

Figure 10. Assessed contributions collection rate (in the year of assessment)



25. As at 31 December 2016, the arrears of contributions of 18 member States – Antigua and Barbuda, Burundi, Comoros, Djibouti, Dominica, Equatorial Guinea, Gambia, Grenada, Guinea-Bissau, Kyrgyzstan, Liberia, Sao Tome and Principe, Sierra Leone, Solomon Islands, Somalia, South Sudan, Tajikistan and Vanuatu – equalled or exceeded the amount of the contributions due from the past two years (2014–15). 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 Organisation. A provision of US\$10.6 million has been made in respect of the amount due from member States that had lost the right to vote at 31 December 2016.

Property, equipment and investment property

26. Property and equipment is mainly composed of land and buildings. Total land and buildings, had a market value of US\$571.5 million. The table below provides a summary of the ILO's land and buildings as at 31 December 2016:

(US\$ thousands)	Fair value	
	31.12.2016	31.12.2015
Land		
Headquarters – Geneva		
Land	369 159	304 164
Plots of land classified as investment property	–	28 254
Lima	3 561	3 190
Abidjan	489	440
Santiago	4 232	1 157
Total land	377 441	337 205
Buildings		
Headquarters – Geneva	169 713	132 076
Lima	11 275	10 100
Brasilia	431	436
Abidjan	2 773	2 495
Dar es Salaam	2 484	2 403
Buenos Aires	708	650
Islamabad	605	259
Santiago	5 489	2 127
Brussels	570	662
Total buildings	194 048	151 208
Total land and buildings	571 489	488 413

Land

27. The total value of land increased by US\$40 million. The increase is composed of an increase in the market value of the land in Geneva and in Santiago by US\$65 million and US\$3 million respectively, offset by the sale of one plot of land in Geneva (classified as investment property with a value of US\$28 million) to a non-related party in 2016.

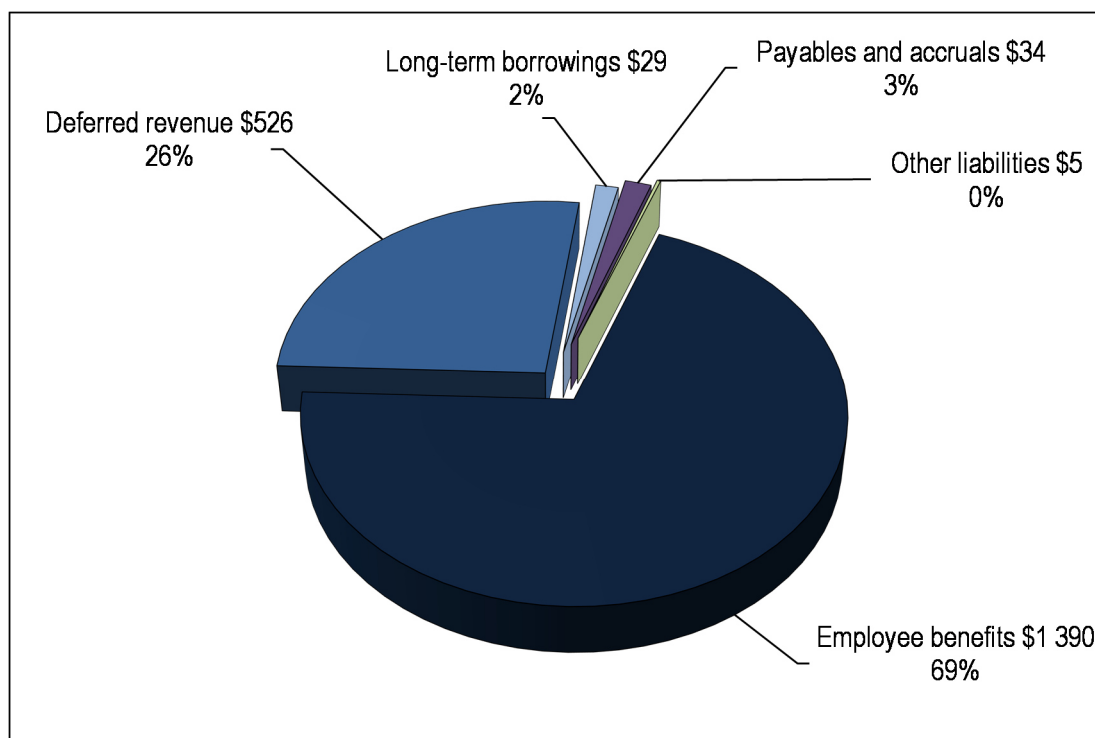
Buildings

28. The increase in the total value of buildings of US\$42.8 million is mainly attributable to an increase in the market value of the headquarters building by US\$37.7 million due to the renovation work realised during the year. The total fair value of buildings in other locations has also increased by US\$5.1 million as compared to 2015.

Liabilities

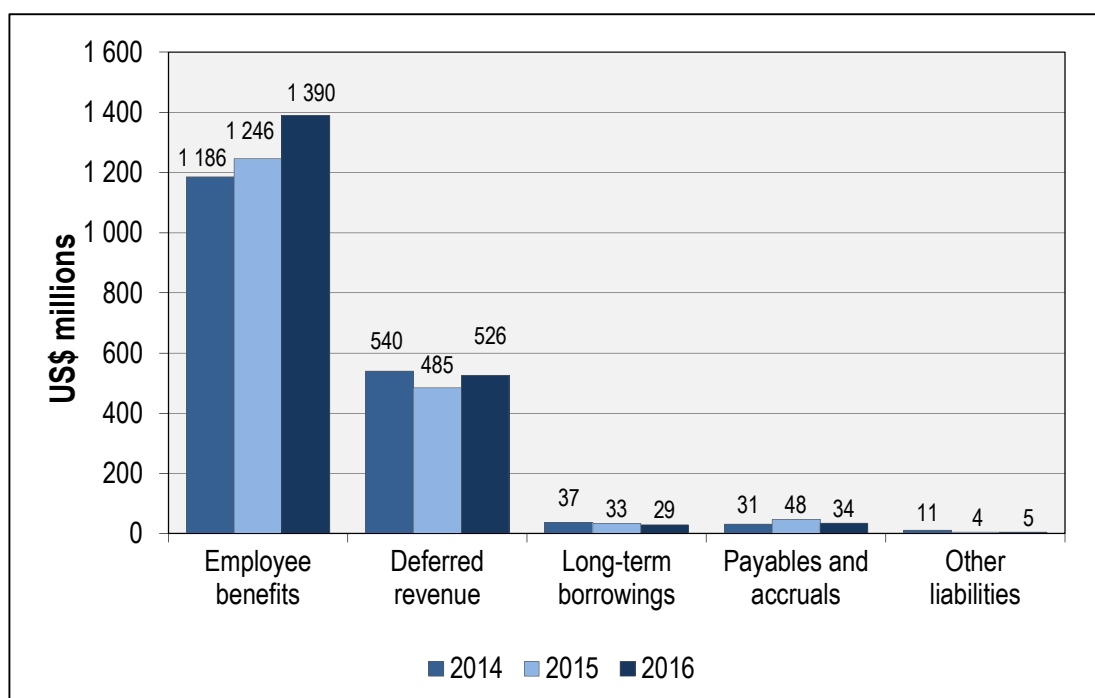
29. Liabilities as at 31 December 2016 totalled US\$1,984.1 million (US\$1,816.3 million as at 31 December 2015) as follows:

Figure 11. Liabilities (US\$ millions)



30. Figure 12 below provides a three-year comparison by liability category:

Figure 12. Liabilities, three-year comparison



Employee benefits

31. The most significant liabilities were the future employee benefits accrued by staff members and retirees. These represented 69 per cent of the ILO's total liabilities as at 31 December 2016.

32. The ASHI liability represents 94 per cent of the total employee benefits' liability and refers to the estimated cost of the employer's share of future health-care premia in respect of all current retirees and all active staff members with projected eligibility for ASHI. It is a point-in-time estimate calculated by an independent actuary taking into consideration the current discount rates, trends in health-care costs, mortality rates, the demographic make-up of the insured population, inflation and other assumptions. It is based on an approach developed by the actuarial profession and endorsed by accounting standard setters as being the most accurate method for projecting the amount of the Organization's future obligation.

33. A key assumption utilized by the actuary to calculate the ASHI liability is the discount rate. The decline in the global interest rates from 2009 to 2016 has had a significant effect on the discount rate and consequently the ASHI liability valuation. Figure 1 shows the growth in the ASHI liability and the relationship with the discount rate.

34. The ASHI liability increased by US\$148 million in 2016 to US\$1,307 million. The increase was primarily the result of actuarial losses as detailed below:

Actuarial (gains)/losses	US\$ millions
Loss due to change in discount rate	88.5
Loss due to change in turnover	18.4
Loss due to change in mortality rates	6.0
Net gain due to change in other actuarial assumptions	(1.7)
Total actuarial losses recognized in net assets	111.2
Current service cost	40.5
Interest cost	19.6
Net benefits paid	(23.2)
Net ASHI expense recognized in the statement of financial performance	36.9
Total increase in ASHI liability	148.1

35. The ASHI liability is currently considered as unfunded. However, an amount of US\$61.4 million is available in a SHIF Guarantee Fund to cover future liabilities of SHIF together with an amount of US\$4.8 million accumulated in respect of the staff of development cooperation projects. The ILO fulfils its immediate obligations in respect of the financing of health insurance for former officials from the regular budget, on a pay-as-you-go basis.

Regular budget

36. The International Labour Conference, at its 104th Session (June 2015), approved an expenditure budget for the 2016–17 financial period amounting to US\$797.4 million and an income budget for the period for the same amount, which at the budget rate of exchange for the period of CHF0.95 to the US dollar, resulted in total assessed contributions of CHF757.5 million.

37. The overall budgetary results for the first twelve months of the 2016–17 financial period are summarized in Statement V-A with the details of contributions paid by member States shown in note 31 to the financial statements.

38. The table below shows the expenditure and budget utilization percentages for the current and recent years:

Variance analysis by strategic outcome for 2014–16 (in US\$ thousands)

	2014	2014	2014	2015	2015	2015	2016	2016	2016
	Budget ¹	Actual	Delivery	Budget ¹	Actual	Delivery	Budget ¹	Actual	Delivery
Part I – Ordinary budget									
A. Policy-making organs	41 235	37 485	90.91 %	41 234	36 866	89.41 %	27 379	24 804	90.59 %
B. Policy outcomes	306 146	272 694	89.07 %	306 146	332 966	108.76 %	317 414	298 928	94.18 %
C. Management services	30 997	29 941	96.59 %	30 998	31 988	103.19 %	31 716	31 934	100.69 %
D. Other budgetary provisions	23 401	21 821	93.25 %	23 401	22 478	96.06 %	23 283	20 794	89.31 %
Adjustment for staff turnover	(3 300)	–	0.00 %	(3 299)	–	0.00 %	(3 262)	–	0.00 %
Total Part I	398 479	361 941	90.83 %	398 480	424 298	106.48 %	396 530	376 460	94.94 %
Part II – Unforeseen expenditure									
	438	–	0.00 %	437	–	0.00 %	438	–	0.00 %
Part IV – Institutional investments and extraordinary items									
	1 713	3 426	200.00 %	1 713	–	0.00 %	1 727	3 454	200.00 %
Total Parts I, II and IV	400 630	365 367	91.20 %	400 630	424 298	105.91 %	398 695	379 914	95.29 %

¹ Budget represents one half of the biennial Budget adopted by the International Labour Conference.

39. The results of the first year of the 2016–17 biennium should be compared with those for 2014, the first year of the previous biennium. The ILO's budgetary delivery rate at 95.29 per cent in 2016 compared to 91.20 per cent in 2014, shows a delivery that is higher than historical patterns. In the first year of the biennium, the ILO normally utilizes less than one half of the biennial budget, as activities are often planned and programmed in the first year for delivery across the whole biennium. The higher delivery rate in 2016 compared to 2014 shows that the Organization is making progress in its efforts to minimize the biennial bias on expenditure. It is expected that the delivery rate in 2017 will accelerate to attain full delivery of the approved biennial budget for 2016–17. Results-based delivery information is reported biennially to the Governing Body and Conference through the ILO Programme Implementation Report at the conclusion of each biennium.

40. As reported in Statement V-A, the excess of income over expenditure for the period at the budgetary rate of exchange was US\$18.8 million. Following revaluations, adjustments in respect of arrears of contributions received and reimbursement of the Working Capital Fund, the net surplus at the end of the first year of the biennium, for budgetary purposes, was US\$21 million. Since the ILO operates on a biennial financial period, the results for 2016 do not represent a surplus as defined in article 18 of the Financial Regulations. The final determination of surpluses to be returned to member States will be made at the end of the financial period, that is, 31 December 2017.

41. The differences between the net results determined on an IPSAS (full accrual) basis and those determined in accordance with the Financial Regulations are summarized in the following table and explained in more detail in note 24.

(US\$ thousands)	Regular budget	CINTERFOR	ITC	Subsidiary funds	Total
Net result per budgetary basis (Statement V)	21 042	211	1 167	–	22 420
IPSAS adjustments	(3 147)	(56)	(2 343)	–	(5 546)
Subsidiary funds	–	–	–	(38 630)	(38 630)
Net result per IPSAS basis	17 895	155	(1 176)	(38 630)	(21 756)

Other funds

42. As at 31 December 2016, the net assets of other funds managed by the ILO amounted to US\$18.1 million and included the ITC, CINTERFOR and the Administrative Tribunal.

43. The overall results of those funds with budgets approved by the Governing Body or the Board of the ITC for 2016 are summarized in Statements V-B and V-C and information on the net assets of each fund is included in the appendix.

44. Expenditure recognized during 2016 on extra-budgetary development cooperation activities totalled US\$199.1 million (US\$234.5 million in 2015). Under IPSAS, revenue is recognized and matched by the Office when earned through project delivery; hence the extra-budgetary development cooperation delivery rate is consistently 100 per cent in financial terms. The results show that the delivery measured by expenditure was lower by 15 per cent in 2016 as compared to 2015. This is largely the result of a shift in the approval pattern of voluntary contributions from extra-budgetary donors. Unusually, some 80 per cent of approvals were received in the latter half of the year. While total new approvals received in 2016 slightly exceeded those in 2015, the delayed receipt contributed to a reduction in the Office's overall expenditure on related activities during 2016.

45. The ILO Staff Health Insurance Fund (SHIF) is a self-insured health insurance programme for active staff, retirees and dependents, which is maintained by the ILO. This programme is financed through contributions from insured persons and the ILO. The Statement of Financial Performance reports as income, the contributions received from insured persons and reports as expense the amount reimbursed for medical claims under the programme. In 2016 the SHIF had a small technical deficit of US\$263,000. The net result, after investment income (US\$1,261,000) and exchange and revaluation losses (US\$1,286,000) was US\$288,000. The net assets of the SHIF as at 31 December 2016 were US\$61.4 million (US\$61.6 million in 2015).

Ex gratia payments

46. During 2016, ex gratia payments of US\$13,413 (US\$30,200 in 2015) were made.

Separation of the ITU from the SHIF

47. The ITU separated from the SHIF effective 1 May 2014 after 62 years of affiliation.

48. Since the inception of the ILO–ITU relationship in the Fund, each organization's Assets and Liabilities, Income and Expenditure have been accounted for separately and disclosed in the Annual Reports on the operations of the Fund. Since the adoption of IPSAS, the audited financial statements of both organizations have recognized the respective shares which is equivalent to the amount recorded in the SHIF Guarantee Fund as reported in paragraph 45. The ILO has received a claim from the ITU for a share of what has previously been considered ILO/SHIF assets. The ITU claim amounts to some US\$18.6 million plus interest at 5 per cent compared with the share as provided for in the audited financial statements of some US\$1.9 million. Based on the ILO–ITU Memorandum of Understanding of 2 May 2014, the ITU initiated in January 2017 arbitration proceedings for the apportionment of the SHIF Guarantee Fund. This matter is now pending but, given the absence of any legal or accounting basis, no provision or further disclosure is contained in the ILO consolidated financial statements.



2. Approval of the consolidated financial statements for the year ended 31 December 2016

The consolidated financial statements are the responsibility of and have been prepared by Management in accordance with the International Public Sector Accounting Standards and comply with the Financial Regulations of the International Labour Organization. They include certain amounts that are based on Management's best estimates and judgements.

Accounting procedures and related systems of internal control, developed by Management, provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that overall, policies and procedures are implemented with an appropriate segregation of duties.

The financial governance of the Office includes the review of financial systems and internal controls by the ILO's Office of Internal Audit and Oversight, the External Auditor, and by the Governing Body and its subsidiary body, the Independent Oversight Advisory Committee. The External Auditor also provides an opinion on the Financial Statements which is provided in the following section.

In accordance with Chapter VII of the Financial Regulations and Financial Rule 1.40, the consolidated financial statements numbered I to V and the accompanying notes are hereby approved and submitted to the Governing Body of the International Labour Office.

Approved by :

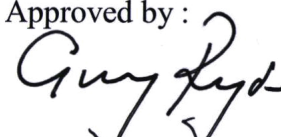


Greg Johnson

Treasurer and Financial Comptroller

31 March 2017

Approved by :



Guy Ryder

Director-General

31 March 2017



3. Audit opinion of the External Auditor to the Governing Body of the International Labour Office





Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

To the Governing Body of the International Labour Organization

Opinion

We have audited the consolidated financial statements of the International Labour Organization (ILO) and its controlled entity, the International Training Centre (ITC), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of financial performance, consolidated statement of changes in net assets, consolidated statement of cash flow, and statements of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the ILO and its controlled entity, the ITC, as at 31 December 2016, and their financial performance, changes in net assets, cash flow, and comparison of budget and actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the ILO and its controlled entity, the ITC in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the **ILO financial report and audited consolidated financial statements for the year ended 31 December 2016 and report of the external auditor**, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ILO and its controlled entity, the ITC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the ILO and its controlled entity, the ITC or to cease operations, or has no realistic alternative but to do so.

Those charges with governance are responsible for overseeing the ILO and its controlled entity, the ITC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economics decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ILO and its controlled entity, the ITC's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ILO and its controlled entity, the ITC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Further, in our opinion, the transactions of the ILO and its controlled entity, the ITC, that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the ILO and of the ITC.

In accordance with Paragraph 6 of the Appendix to the Financial Regulations of the ILO, we have also issued a long-form report on our audit of the ILO's consolidated financial statements to the Governing Body.



Michael G. Aguinaldo
Chairperson, Commission on Audit
Republic of the Philippines
External Auditor

Quezon City, Philippines
18 April 2017



4. Consolidated financial statements for the year ended 31 December 2016



International Labour Organization

Statement I

Consolidated statement of financial position as at 31 December 2016 (US\$ millions)

	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	4	392.8	386.0
Contributions receivables – Assessed contributions	5	65.2	86.4
Contributions receivables – Voluntary contributions	6	222.0	222.0
Derivative assets	7	19.2	11.7
Investments	8	112.1	67.5
Other receivables	9	9.7	12.2
Inventories	10	3.9	4.9
Investment property	12	–	28.3
Other current assets	11	14.6	14.0
		<u>839.5</u>	<u>833.0</u>
Non-current assets			
Contributions receivables – Assessed contributions	5	10.6	12.7
Contributions receivables – Voluntary contributions	6	54.0	45.2
Derivative assets	7	–	12.4
Investments	8	225.8	226.3
Property and equipment	13	585.1	475.9
Intangible assets	14	2.1	2.3
		<u>877.6</u>	<u>774.8</u>
Total assets		<u>1 717.1</u>	<u>1 607.8</u>
Liabilities			
Current liabilities			
Payables and accruals		34.1	47.6
Deferred revenue	15	471.8	439.3
Employee benefits	16	50.1	50.4
Current portion of long-term borrowings	17	3.6	3.7
Due to member States	18	0.4	0.2
Derivative liabilities	7	–	0.1
Other current liabilities	19	3.8	3.6
		<u>563.8</u>	<u>544.9</u>
Non-current liabilities			
Deferred revenue	15	54.0	45.2
Employee benefits	16	1 340.1	1 195.8
Long-term borrowings	17	25.7	29.6
Due to member States	18	0.5	0.8
		<u>1 420.3</u>	<u>1 271.4</u>
Total liabilities		<u>1 984.1</u>	<u>1 816.3</u>
Net assets			
Reserves	20	205.1	189.4
Accumulated balances	20	(472.1)	(397.9)
Total net assets		<u>(267.0)</u>	<u>(208.5)</u>

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement II

Consolidated statement of financial performance for the year ended 31 December 2016 (US\$ millions)

	Note	2016	2015
Revenue			
Assessed contributions	26, 31	382.9	386.7
Voluntary contributions	26	220.6	260.6
ITC training services	26	12.6	14.1
Staff/retiree benefit contributions		20.0	20.3
Sales and royalties		10.3	10.0
Gain on sale of investment property	12	0.1	6.1
Investment income		5.9	1.7
Other income		2.6	1.6
Total revenue		655.0	701.1
Expenses			
Salaries, employee benefits and other personnel costs	21	406.5	414.5
Travel	21	26.5	31.2
Subcontracts	21	89.5	127.7
General operating expenses	21	41.1	44.4
Supplies, materials and small equipment	21	8.0	13.2
Depreciation and amortization	21	4.9	4.3
Seminars, workshops and other training	21	39.1	49.8
Staff development	21	3.4	5.2
Health benefits	21	43.8	41.5
Contributions and grants in aid	21	6.2	10.2
Change in fair value of investment property	12	–	8.4
Finance expenses	21	2.4	2.3
Other expenses	21	3.5	5.1
Total expenses		674.9	757.8
Foreign exchange gains/(losses)	32	(1.9)	12.5
Net surplus (deficit)		(21.8)	(44.2)

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement III

Consolidated statement of changes in net assets for the year ended 31 December 2016 (US\$ millions)

	Note	Reserves	Accumulated balances	Total net assets
Balance as at 31 December 2014		200.0	(317.1)	(117.1)
Surplus (deficit) for the year 2015		5.5	(49.7)	(44.2)
Internal borrowing for financing of regular budget deficit		(16.2)	16.2	–
Change of derivatives		–	10.7	10.7
Change of revaluation surplus of land and buildings		–	(28.5)	(28.5)
Actuarial gain (loss) of employee benefit liabilities		–	(26.7)	(26.7)
Transfer from ITC General Fund to the ITC Working Capital Fund		0.1	(0.1)	–
Transfer to liabilities due to member States of period 2015		–	(0.4)	(0.4)
Translation difference from consolidation of ITC		–	(2.3)	(2.3)
Total 2015 movement		(10.6)	(80.8)	(91.4)
Balance as at 31 December 2015	20	189.4	(397.9)	(208.5)
Surplus (deficit) for the year 2016		(0.8)	(21.0)	(21.8)
Repayment of internal borrowing for financing of regular budget deficit		16.5	(16.5)	–
Change of derivatives		–	(5.5)	(5.5)
Change of revaluation surplus of land and buildings		–	78.7	78.7
Actuarial gain (loss) of employee benefit liabilities		–	(108.9)	(108.9)
Translation difference from consolidation of ITC		–	(1.0)	(1.0)
Total 2016 movement		15.7	(74.2)	(58.5)
Balance as at 31 December 2016	20	205.1	(472.1)	(267.0)

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement IV

Consolidated statement of cash flow for the year ended 31 December 2016 (US\$ millions)

	2016	2015
Cash flows from operating activities		
Surplus (deficit) for the year	(21.8)	(44.2)
Non-cash movements:		
Depreciation and amortization	4.9	4.3
Change in fair value of investment property	–	8.4
(Increase) decrease in contributions receivables – Assessed contributions	23.3	(30.5)
(Increase) decrease in contributions receivables – Voluntary contributions	(8.8)	22.4
(Increase) decrease in derivative instruments	(0.7)	(3.7)
(Increase) decrease in other receivables	2.5	(4.5)
(Increase) decrease in inventories	1.0	1.2
(Increase) decrease in other assets	(0.6)	1.0
Increase (decrease) in payables and accruals	(13.5)	16.5
Increase (decrease) in deferred revenue	41.3	(55.2)
Increase (decrease) in employee benefits	35.1	33.7
Increase (decrease) in due to member States	(0.1)	0.2
Increase (decrease) in other liabilities	0.2	(5.6)
(Gain) loss in sale of investment property	(0.1)	(6.1)
Increase (decrease) in investment portfolios	0.5	1.0
Increase (decrease) in borrowings	(0.2)	0.8
Transfer to liabilities due to member States	–	(0.4)
Effect of exchange rates on cash and cash equivalents	9.3	2.9
Net cash flows from operating activities	72.3	(57.8)
Cash flows from investing activities		
Proceed from sale of investments	67.5	2.8
Proceed from sale of investment property	28.4	27.0
Purchase of investments	(112.1)	(147.1)
Additions of property and equipment	(35.2)	(22.0)
Additions of intangible assets	(0.4)	(0.8)
Net cash flows from investing activities	(51.8)	(140.1)
Cash flows from financing activities		
Repayment of borrowings	(3.8)	(3.9)
Net cash flows from financing activities	(3.8)	(3.9)
Effect of exchange rates on cash and cash equivalents	(9.9)	(3.9)
Net increase (decrease) in cash and cash equivalents	6.8	(205.7)
Cash and cash equivalents, beginning of period	386.0	591.7
Cash and cash equivalents, end of period	392.8	386.0

US\$1.1 million of interest received is included in the net cash flows from operating activities (2015 = US\$0.8 million).

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement V-A

Statement of comparison of budget and actual amounts ¹

Regular budget for the year ended 31 December 2016 (US\$ thousands)

	Original ² and final budget	Actual	Difference ³
Revenue			
Assessed contributions	398 695	398 704	9
Total revenue	398 695	398 704	9
Expenses			
Part I – Ordinary budget			
A. Policy-making organs	27 379	24 804	(2 575)
B. Policy outcomes	317 414	298 928	(18 486)
C. Management services	31 716	31 934	218
D. Other budgetary provisions	23 283	20 794	(2 489)
Adjustment for staff turnover ⁴	(3 262)	–	3 262
Total Part I	396 530	376 460	(20 070)
Part II – Unforeseen expenditure	438	–	(438)
Part IV – Institutional investments and extraordinary items	1 727	3 454	1 727
Total expenses (Parts I, II and IV)	398 695	379 914	(18 781)
Surplus at budgetary rate of exchange		18 790	
Revaluation of the budgetary surplus		(1 375)	
Surplus at UN operational rate of exchange ⁵		17 415	
Surplus resulting from the receipt of contributions in an amount higher than approved regular budget		19 290	
Reimbursement of 2014–15 deficit financing ⁶		(15 663)	
Net surplus (deficit) ⁷		21 042	

¹ Budget and actual information calculated at budgetary rate of exchange of US\$1 = CHF0.95.

² Original budget represents one half of the biennial budget adopted by the ILC.

³ Significant differences between budget and actual are explained in the accompanying financial report on the 2016 accounts.

⁴ Staff turnover is an undistributed adjustment to reduce the overall level of the budget in recognition of inevitable delays in recruitment. Managed underspending against appropriation lines offsets this undistributed adjustment.

⁵ Any surplus remaining at the end of the biennium is credited to Member contributions in the second year of the next biennium as per article 18(2) of the Financial Regulations.

⁶ As at 31 December 2015, in accordance with article 21.1(a) of the Financial Regulations, the deficit of CHF16.054 million was covered by the Working Capital Fund. In accordance with article 21.2(a) of the Financial Regulations, arrears of contributions received in 2016 were used to reimburse the Working Capital Fund.

⁷ The ILO financial period for budgetary purposes consists of two consecutive calendar years. At the mid-point in a biennium, the surplus/deficit reflected in this statement is notional and no transfers as described in footnote 5 above are processed.

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement V-B

Statement of comparison of budget and actual amounts

Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR)
for the year ended 31 December 2016 (US\$ thousands)

	Original ¹ and final budget	Actual	Difference
Accumulated balance, beginning	403	913	510
Revenue			
Contribution from ILO regular budget	1 192	1 192	–
Contribution from host country and other countries in the region	350	292	(58)
Other contributions	125	168	43
Sales of publications and services	15	–	(15)
Miscellaneous income	5	(1)	(6)
Total revenue	1 687	1 651	(36)
Expenses			
Expenditure	1 710	1 440	(270)
Total expenses	1 710	1 440	(270)
Net surplus (deficit)	(23)	211	234
Accumulated balance, ending	380	1 124	744

¹ The original budget represents one half of the biennial budget adopted by the ILO Governing Body.

The accompanying notes form an integral part of these consolidated financial statements.

International Labour Organization

Statement V-C

Statement of comparison of budget and actual amounts

International Training Centre of the ILO (ITC) for the year ended 31 December 2016

	2016 Original ¹ and final budget	2016 Actual	Budget variance ²	2016 Original ¹ and final budget	2016 Actual	Budget variance ²
	(in € thousands)			(in US\$ thousands) ³		
Revenue						
Voluntary contributions	11 683	12 649	966	12 967	14 039	1 072
Earned revenue	25 472	24 828	(644)	28 271	27 556	(715)
Use of surplus	809	923	114	898	1 024	127
Total budget revenue	37 964	38 400	436	42 136	42 619	484
Expenditure						
Fixed expenditure	21 755	21 959	204	24 145	24 372	226
Variable expenditure	16 396	15 325	(1 071)	18 198	17 009	(1 189)
Contingency	–	–	–	–	–	–
Total operating expenditures	38 151	37 284	(867)	42 343	41 381	(963)
Budget surplus⁴	(187)	1 116	1 303	(207)	1 238	1 447
Other items						
Doubtful accounts	–	(51)	(51)	–	(57)	(57)
Exchange gain (loss) and revaluation, net	–	(13)	(13)	–	(14)	(14)
Total other items	–	(64)	(64)	–	(71)	(71)
Net budget surplus⁴	(187)	1 052	1 239	(207)	1 167	1 376

¹ Original budget represents 50 per cent of approved budget for voluntary contributions, other revenue, past surpluses, 49 per cent of the approved budget for fixed expenditures, project staff variable expenditure as well as 46 per cent of the approved budget for training and publications revenue and total variable expenditure excluding project staff. It also includes 0 per cent of the approved budget for the contingency (as this will only be included in the final biennium approved budget).

² Budget variances are explained in the accompanying financial report on the 2016 accounts of the ITC.

³ The revenue and expenditure of the ITC are consolidated using an average rate of US\$1 = €0.901 for the reporting period (US\$1 = €0.904 for 2015).

⁴ As referred to in Financial Regulations 7(4) of the ITC.

The accompanying notes form an integral part of these consolidated financial statements.

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Note 1 – Objectives and activities

1. The International Labour Organization (ILO) was founded in 1919 to promote social justice and internationally recognized human and labour rights. In 1947, the ILO became the first specialized agency of the United Nations (UN) system based upon an agreement between the Organization and the UN adopted in accordance with Article 57 of the United Nations Charter.
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; 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.
3. The ILO was established pursuant to its Constitution originally adopted in 1919 and is governed by the International Labour Conference (ILC) which consists of representatives of all the member States, and by the Governing Body elected by the ILC. The ILC of representatives of the Members is convened annually. Within the UN 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.
4. The ILO's headquarters is in Geneva, Switzerland, and it maintains external offices in over 50 countries. In accordance with its headquarters agreement with the Government of Switzerland and the United Nations Convention on Privileges and Immunities for Specialized Agencies (1947 Convention) the Organization is exempt from most taxes and customs duties imposed by its member States.
5. The financial statements consolidate all of the operations under the direct authority of the Director-General including the regular budget, reserves, extra-budgetary funded activities, the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR) and the International Training Centre of the ILO (ITC) along with the Administrative Tribunal of the ILO and the ILO Staff Health Insurance Fund (SHIF).
6. Controlled entity: The ITC was established by the Governing Body of the ILO and the Government of Italy in 1964. The Centre is headquartered in Turin, Italy. The Centre provides training and related services to UN agencies, governments and non-governmental organizations designed to develop human resources and improve institutional capabilities. The Centre is principally financed from contributions from the ILO regular budget and development cooperation projects, from the Government of Italy and from charges for training services provided. The Centre produces separate financial statements at the same reporting date as the ILO.



Note 2 – Accounting policies

Basis of preparation and presentation

7. The consolidated financial statements of the ILO have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and comply with the ILO Financial Regulations.
8. The consolidated financial statements are prepared on an accrual basis.
9. The transitional provisions on Property and equipment (IPSAS-17) have been applied in the initial recognition of equipment purchased before 1 January 2012. Equipment acquired prior to 1 January 2012 was expensed at the date of purchase and its value has not been recognized as an asset. The transitional period ends on 31 December 2016.

Financial period

10. The Organization's financial period for budgetary purposes is a biennium consisting of two consecutive calendar years. The consolidated financial statements are prepared annually.

Financial statement presentation

11. The functional and presentation currency of the Organization is the United States (US) dollar. The consolidated financial statements are expressed in millions of US dollars unless otherwise indicated.

Measurement uncertainty

12. The preparation of consolidated financial statements in accordance with IPSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the year. Investments and derivatives, property, and employee benefit liabilities are the most significant items where estimates are used. Actual results could differ significantly from these estimates.

Significant accounting policies

Borrowings

13. Borrowings are classified as financial liabilities initially measured at fair value and subsequently measured at amortized cost. Interest and other expenses incurred in connection with the borrowing of funds to directly finance the acquisition or construction of assets are capitalized as part of the cost of the asset.

Cash and cash equivalents

14. Cash comprises cash on hand and demand deposits; cash equivalents are short-term, highly liquid investments with maturity less than 90 days as at the reporting date and are readily convertible to known amounts of cash.

Consolidation

15. The accounts of the ITC have been consolidated into the consolidated financial statements of the ILO.
16. The functional currency of the ITC is the euro. For the purposes of consolidation, the balances of the ITC assets, liabilities and net assets are converted from the euro to the US dollar at the UN operational rate of exchange as at the reporting date. Revenues and



expenses are converted from the euro to the US dollar using the average UN operational rate for the reporting period. Gains and losses on exchange resulting from the consolidation of ITC euro-based accounts into the ILO's US dollar-based consolidated financial statements are recognized in net assets.

Contingent asset

17. Contingent assets are probable assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Organization. They are disclosed in the notes to the consolidated financial statements.

Derivatives

18. The ILO uses derivative financial instruments, such as forward purchase agreements to hedge its foreign currency risks. These financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value at the end of the financial period. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are recognized on the consolidated statement of financial performance, except for the effective portion of cash flow hedges (see below), which is recognized in net assets and later reclassified to the consolidated statement of financial performance when the hedge item affects profit or loss.

19. The ILO designates its regular budget forward purchase agreements as a cash flow hedge and applies hedge accounting as below:

- ❑ The effective portion of the gain or loss on the hedging instrument (forward purchase agreement) is recognized in net assets, while any ineffective portion is recognized immediately in the consolidated statement of financial performance as exchange gain (loss) and revaluation, net. The effectiveness of the hedge is tested prospectively and retrospectively, whereby the ratio of the change in the fair value of the hedged cash flows is attributed to the change in the spot US dollar to Swiss franc (CHF) rate. The testing is conducted at the inception of the hedge and at each reporting date.
- ❑ Amounts recognized in net assets are transferred to the consolidated statement of financial performance when the forecast transaction (recognition of assessed contribution) occurs.
- ❑ If the hedging instrument is exercised, or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized remains in net assets until the forecast transaction occurs.
- ❑ Hedge accounting is also discontinued when the forecasted transaction is no longer expected to occur in which case any cumulative gain or loss that was recognized in net assets is immediately transferred to the consolidated statement of financial performance as exchange gain (loss) and revaluation.



Due to member States

20. A liability is established to reflect the amounts payable to member States for undistributed net surpluses, undistributed net premia at the end of each biennium, and the incentive fund at the end of each reporting period:

- ❑ At the end of the first year of each biennium a calculation is made of the amount that would have been due to member States, and this amount is reflected as a component of accumulated fund balance.
- ❑ At the end of the second year of each biennium the amount is recognized as a liability to member States in accordance with the provisions of the Financial Regulations.

Employee benefits

21. The ILO recognizes the following categories of employee benefits:

Post-employment benefits

22. Post-employment benefits are employee benefits that are payable after the completion of employment. The ILO is a member organization participating in the United Nations Joint Staff Pension Fund (the UNJSPF or the Fund), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified by article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations (UN) and the specialized agencies.

23. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. The ILO, in line with the other participating organizations in the Fund, is not in a position to identify its share of the defined benefit obligation, plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the ILO has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS-25. The ILO's contributions to the Fund during the financial period are recognized as expenses in the consolidated statement of financial performance.

24. The ILO's defined benefit plans comprise the after service health insurance (ASHI) plan and repatriation entitlements, which include repatriation grant and end-of-service benefits along with travel and shipping costs upon termination. The liability recognized for these plans is the present value of the defined benefit obligations at the reporting date. The ASHI liability, repatriation grant and end-of-service benefits are calculated by an independent actuary using the Projected Unit Credit Method.

25. Interest cost and past and current service costs are recognized on the consolidated statement of financial performance as a component of staff costs. Actuarial gains or losses arising from changes in actuarial assumptions or experience adjustments are directly recognized in net assets.

Short-term employee benefits

26. Short-term employee benefits comprise first-time employee benefits, regular monthly benefits (for example salaries and allowances), compensated absences, other short-term benefits (for example education grant and home leave). An expense is recognized when employees render service to the Organization and a liability is



recognized for any entitlement that has not been settled at the reporting date. Short-term employee benefit liabilities are expected to be settled within 12 months of the reporting date. They are recognized as current liabilities and are measured at an undiscounted amount.

Other long-term employee benefits

27. Other long-term employee benefits are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees render the related services. Such benefits include the portion of the accumulated leave balances that is not expected to be settled within 12 months of the reporting date. They are recognized as non-current liabilities.

Foreign currency transactions

28. Transactions carried out during the financial period in currencies other than the US dollar are converted to US dollars using the UN operational rate of exchange in effect on the date of each transaction. These rates approximate market rates.

29. Balances of monetary assets and liabilities maintained in currencies other than the US dollar are converted to US dollars at the UN operational rate of exchange applicable at the reporting date, which approximates the market rate. Exchange differences arising on the settlement of monetary items and unrealized gains or losses from revaluation of monetary assets and liabilities are recognized on the consolidated statement of financial performance except for gains and losses on exchange arising on effective cash flow hedges at the reporting date which are recognized in net assets.

30. Balances of non-monetary assets and liabilities carried at historical cost are converted using the UN operational rate of exchange at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the UN operational rate at the date when the fair value is determined. Exchange gains or losses from the revaluation of property are recognized in net assets. Exchange gains or losses from the revaluation of investment property are recognized in the consolidated statement of financial performance as “Change in fair value of investment property”.

31. Exchange gains and losses, except those on investment property that are disclosed separately, are presented on a net basis on the consolidated statement of financial performance as revenue if a gain or as an expense if a loss.

32. On the statement of comparison of budget and actual amounts for the regular budget (Statement V-A), revenue and expenses incurred in Swiss francs is reflected at a budgetary rate of exchange fixed by the ILC for the biennium.

Impairment

33. Cash-generating assets are those held for the purpose of generating a commercial return. Non-cash-generating assets including land, buildings, equipment, intangible assets and leasehold improvements are not held for future sale. Impairment reviews are undertaken for all assets at least annually to determine if there is any impairment in their value. Provisions are established to recognize impairment, if necessary.

Inventory

34. Publications held for free distribution are valued at the lower of cost and current replacement cost. Publications held for sale are valued at the lower of cost and net realizable value. If net realizable value is lower than cost, the difference is recognized as an expense on the consolidated statement of financial performance. The value of publications is written off when they are considered damaged or after two years when they



are considered obsolete and this is an expense on the consolidated statement of financial performance. The cost of publications is calculated using the weighted average cost. The cost of paper and other supplies used in the production process is calculated using the first-in, first-out method formula.

Intangible assets

35. Intangible assets are recognized at historical cost and amortized over their useful life of three to five years using the straight line method. Externally acquired software are recognized as intangible assets if their cost per user equalled or was greater than US\$5,000. Internally developed software are recognized as intangible assets if their cost equalled or was greater than US\$200,000 for the ILO and €40,000 for the ITC.

Investments

36. Investments are designated as financial assets at fair value through surplus or deficit and measured at fair value as at the reporting date. Realized and unrealized gains or losses arising from the change of market value of investments and revenue from interest and dividends are recognized in the consolidated statement of financial performance in the period in which they arise. Investments are classified as current or non-current assets according to the time horizon of the investment objectives. If the time horizon is less than or equal to one year, they are classified as current assets, and if it is more than one year, they are classified as non-current assets.

Investment property

37. Investment properties are initially recognized at cost and subsequently measured at fair value based upon market conditions at the reporting date.

38. Gains or losses arising from changes in the fair value of investment properties are recognized in the consolidated statement of financial performance in the period in which they arise.

39. Investment properties are derecognized either on disposal of or when they are permanently withdrawn from use and no future economic benefit or service potential is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of financial performance in the period of derecognition.

40. Transfers are made to (or from) investment property only when there is a change in use. If owner-occupied property becomes an investment property, such property is accounted for in accordance with the policy stated under property and equipment up to the date of change in use.

Leases

41. Lease agreements entered into for equipment or office premises are classified as operating leases unless they substantially transfer all of the risk and reward of ownership. Lease charges for operating leases are recognized on the consolidated statement of financial performance as general operating expenses, based on the terms of the agreements for the period concerned so as to reflect the time pattern of benefit to the ILO.

Payables and accruals

42. Payables and accruals are financial liabilities for goods or services that have been received but not paid by the reporting date. Payables and accruals are of a short-term nature and are recognized at cost as the effect of discounting is not considered material.



43. The liability for health insurance claims incurred but not yet received relating to Staff Health Insurance Fund (SHIF) is classified as an accrual. It is estimated based on the expenditure patterns over the past five years and is adjusted on an annual basis.

Property and equipment

44. Property and equipment include the followings classes of assets:

- *Equipment:* Equipment is recorded at historical cost and presented at depreciated cost. Equipment is capitalized and recognized as an asset if its cost exceeds or is equal to a threshold of US\$5,000.
- *Land and buildings:* Land and buildings are valued at fair value based upon an external and independent valuation conducted annually. The net difference between historical cost and fair value for land and buildings is accounted for in a revaluation surplus which forms a separate component of net assets.
- *Leasehold improvement:* Leasehold improvements are recorded at historical cost and presented at depreciated cost. Leasehold improvements are capitalized and recognized as an asset if their cost exceeds or is equal to a threshold of US\$50,000.

45. The value of heritage assets, including donated works of art, is not recognized as an asset on the consolidated statement of financial position.

46. Property and equipment are derecognized either on disposal of or when they are permanently withdrawn from use and no future economic benefit or service potential is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of financial performance in the period of derecognition.

47. Depreciation of property and equipment is recognized over the estimated useful life of the assets using the straight line method, except for land which is not subject to depreciation. Depreciation of buildings is calculated based on the fair value at the beginning of the reporting year using the remaining useful life at that date. When a building is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the building and the net amount restated to the revalued amount. The estimated useful lives for property and equipment are as follows:

Class	Estimated useful life (years)
Buildings	
ILO headquarters (by component)	15–150
Field offices	20–85
Equipment	5–10
Leasehold improvements	Lower of estimated useful life (15–30) and term of lease

Provisions and contingent liability

48. Provisions are recognized for contingent liabilities when the ILO has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle that obligation, and the amount can be reliably estimated. The amount of the provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

49. Contingent liabilities are disclosed where a possible obligation is uncertain but can be measured, or where the ILO has a present obligation but cannot reliably measure the possible outflow of resources.

Revenues and receivables from non-exchange transactions and deferred revenue

50. Revenues and receivables from non-exchange transactions are recognized as follows:

□ *Assessed contributions:*

- Prior to the beginning of each financial period the ILO assesses each member State in accordance with article 13 of the ILO Constitution for its share of the regular budget. Contributions are calculated and payable in Swiss francs equal to the total amount of the Organization's regular budget for the biennial financial period, payable one half at the beginning of each year of the biennium. Revenue from assessed contributions is recognized as one half of the total on 1 January of each year of the biennium.
- Assessed contributions adopted by the ILC but not recognized as revenue at the reporting date are disclosed as contingent assets since the inflow of resources is probable.
- A provision is established equal to the contributions of former member States and member States that are more than two years in arrears and have lost the right to vote under the ILO's Constitution. In Statement II, the assessed contributions from member States are presented net of change in provision.
- Receivables from member States that have negotiated long-term financial arrangements with the ILO's Governing Body are measured initially at fair value after deducting any provision for impairment and collectability and subsequently valued at amortized cost using the effective interest rate methodology.
- Assessed contributions received in advance represent amounts received from member States for contributions related to future financial periods and are classified as deferred revenue.

□ *Voluntary contributions:*

- Voluntary contributions with no conditions are recognized as receivables and as revenue upon the signature of the agreement.
- Voluntary contributions to development cooperation projects are normally subject to conditions related to performance. Upon signature of the agreement, a receivable and a liability (deferred revenue) are initially recognized at fair value and subsequently measured at amortized cost which is obtained through discounting as appropriate.
- Funds received from donors subject to conditions are carried as a liability. Revenue is recognized when the conditions stated in the agreement have been met. Unexpended balances of funds held on behalf of donors at the reporting date are recognized as a liability (due to donors under deferred revenue).
- Contributions received from donors for projects that form part of the Regular Budget Supplementary Account (RBSA) are normally unconditional, and are recognized as revenue and a receivable when the agreements are signed between the ILO and the donor. However, if conditions requiring specific



performance are imposed by a donor to the RBSA, recognition of revenue is deferred until the performance requirement has been satisfied.

- Contributions to the RBSA covering future periods are disclosed as contingent assets if the inflow of contribution to the ILO is probable at the reporting date.
- *Gifts and grants:*
 - The ILO receives non-conditional contributions in cash from member States and non-governmental organizations. These gifts and grants are recognized as voluntary contribution revenue when an agreement is signed between the ILO and a donor or on the receipt of cash if no agreement is signed by both parties.
- *Training services:*
 - The ITC provides training services under contracts to governments and organizations including the ILO. Agreements related to training activities are subsidized by non-conditional voluntary contributions which provide support to the Centre's operations. These agreements are considered non-exchange transactions since both parties to such transactions do not receive approximately equal direct benefit. Training activities that include restrictions on their use are recognized as revenue upon signing of a binding agreement. Agreements for which the Centre has full control and that include conditions, including the implicit or explicit obligation to return funds if such conditions are not met, are recognized as assets and liabilities (deferred revenue) upon signature of a binding agreement. The liability is reduced and revenue is recognized based on the proportion that expenses incurred bear to the estimated total expenses of the training activity.
 - Probable inflows of resources from voluntary contributions and training activities that have not been recognized as assets are disclosed as a contingent asset.
- *Contributions in-kind:*
 - Goods in-kind are recognized at fair value at the date of receipt. In-kind contributions of services are not recognized.
 - Right to use of land, office space and other facilities received from member States are disclosed in the notes to the consolidated financial statements.
- *Programme support income:*
 - Voluntary contributions accepted by the ILO include a charge for services provided by the ILO covering costs of administrative and operational support services, generally calculated as a percentage of total direct project costs. Revenue from programme support services is considered a non-exchange transaction and is recognized when earned through performance.

Revenue from exchange transactions

51. Revenue from exchange transactions is recognized as follows:

- *Sales and royalties:* Revenue is recognized on the date earned. Revenue related to the provision of services is valued based upon the stage of completion measured based upon the total costs incurred by the Organization in delivering the services at the reporting date. Sales of publications are recognized when the publication has been shipped to the purchaser. A provision for doubtful debts is established equal to 50 per cent of the amount outstanding from one year to two years and 100 per cent



of the amount outstanding for more than two years unless the Organization receives from the debtor a written confirmation of the amount due with a planned date of payment.

- ❑ *Investment income:* Interest income, earned based on a time-proportionate basis as it accrues taking into account the effective yield on the asset, gains and losses from sales of investments and changes of investment market value are recognized in the consolidated statement of financial performance in the period that they arise.
- ❑ Staff/retiree benefit contributions are recognized on the date the revenue becomes due in accordance with the Administrative Regulations of the Staff Health Insurance Fund (SHIF).

Note 3 – Accounting standards issued but not yet effective

52. In 2015 and 2016, the International Public Sector Accounting Standards Board (IPSASB) published the following new and amended standards:

- ❑ IPSAS 34 – Separate Financial Statements, IPSAS 35 – Consolidated Financial Statements, IPSAS 36 – Investments in Associates and Joint Ventures, IPSAS 37 – Joint Arrangements, IPSAS 38 – Disclosure in Interests in Other Entities. These standards establish new accounting and disclosure requirements for investments in controlled entities, joint ventures and associates as well as the principles of presentation and preparation of consolidated financial statements. These standards will replace the current requirements in IPSAS 6 – Consolidated and Separate Financial Statements, IPSAS 7 – Investments in Associates and IPSAS 8 – Interests in Joint Ventures, effective for annual periods beginning on or after 1 January 2017, with earlier adoption application permitted. These new standards have no significant impact on the ILO's financial statements.
- ❑ Improvements to IPSAS which contain amendments to the Conceptual Framework of IPSAS and relate to the qualitative characteristics of useful financial information, accounting policies and hierarchy of sources for establishing accounting policies, general improvements to the existing IPSAS, improvements to IPSAS in relation to Government Finance Statistics and improvements to maintain convergence with the International Financial Reporting Standards (IFRS). These improvements are effective on or after 1 January 2017, with earlier adoption permitted. The ILO does not foresee any significant impact on its financial statements.
- ❑ Amendments to IPSAS 21 – Impairment of Non-Cash-Generating Assets and IPSAS 26 – Impairment of Cash-Generating Assets: the amendments establish the impairment standards relating to non-cash and cash-generating assets held using the revaluation method and which were previously out of scope of these chapters. The effective date for the application is for annual periods beginning on or after 1 January 2018. This will have no significant impact on the ILO's financial statements.
- ❑ IPSAS 39 – Employee Benefits: This standard replaces IPSAS 25 – Employee Benefits and provides for the elimination of the possible deferral of actuarial gains and losses and the immediate full recognition in net assets as well as amendments to the disclosure requirements in the notes to financial statements. The effective date for the application of this standard is for annual periods beginning on or after 1 January 2018, with earlier adoption permitted. This will have no significant impact on the ILO's financial statements.



Note 4 – Cash and cash equivalents

53. Cash required for immediate disbursement is maintained in cash and bank accounts. Cash equivalent balances in deposit accounts are available at short notice. Cash and cash equivalents as at the reporting date are as follows:

(US\$ millions)	US\$	CHF	€	Other	2016 total	2015 total
Cash	85.5	147.6	9.4	9.2	251.7	225.3
Cash equivalents	80.2	58.5	2.4	–	141.1	160.7
Total cash and cash equivalents	165.7	206.1	11.8	9.2	392.8	386.0

Note 5 – Contributions receivables – Assessed contributions

54. Assessed contributions receivable as at the reporting date are as follows:

(US\$ millions)	2016	2015
Assessed contributions receivable (notes 30,31)	89.5	112.5
Less: Advance payments received from member States with financial arrangements (note 30)	(1.8)	(0.9)
Less: Amortization of long-term financial arrangements	(1.3)	(1.6)
Less: Provision for doubtful collection of contributions	(10.6)	(10.9)
Total net receivable	75.8	99.1
■ Assessed contributions receivable – Current	65.2	86.4
■ Assessed contributions receivable – Non-current	10.6	12.7

55. Non-current contributions receivable represent amounts due from member States with financial arrangements approved by the ILC net of amortization and provision.

56. An ageing of the assessed contributions receivable is as follows:

(US\$ millions)	2016	2015
Less than 1 year	38.3	70.3
1–2 years	18.5	15.1
Over 2 years	30.9	26.2
Less provision for doubtful debts and amortization	(11.9)	(12.5)
Total	75.8	99.1



Note 6 – Contributions receivables – Voluntary contributions

57. As at the reporting date, voluntary contributions receivable are as follows (note 15):

(US\$ millions)	2016	2015
Voluntary contributions receivable – Current		
Development cooperation projects (all with conditions)	218.8	217.1
ITC training services	3.2	4.8
Unrestricted grants to ITC	–	0.1
Subtotal voluntary contributions receivable – Current	222.0	222.0
Voluntary contributions receivable – Non-current		
Development cooperation projects (all with conditions)	53.8	44.8
ITC training services	0.2	0.4
Subtotal voluntary contributions receivable – Non-current	54.0	45.2
Total voluntary contributions receivable	276.0	267.2

Note 7 – Derivative assets and liabilities

58. As at the reporting date the ILO has the following derivative assets and liabilities:

(US\$ millions)	2016	2015
Derivative assets		
ILO forward purchase agreement within the portfolio – Current	–	0.2
SHIF forward purchase agreement – Current	0.8	–
ILO regular budget forward purchase agreement – Current	18.4	11.5
ILO regular budget forward purchase agreement – Non-current	–	12.4
Total derivative assets	19.2	24.1
Derivative liabilities		
SHIF forward purchase agreement – Current	–	0.1
Total derivative liabilities	–	0.1

59. The contractual amount of currency sold forward and the maturity of the outstanding derivative instruments as at the reporting date are as follows:

Derivative instrument	Maturity	Contractual amount (US\$ millions)
SHIF forward purchase agreement	Within the next three months	50.2
ILO forward purchase agreement within the portfolio	Within the next three months	2.9
ILO regular budget forward purchase agreement	Within the next 12 months	157.5

SHIF forward purchase agreement

60. The risk related to financial assets held on behalf of SHIF in currencies other than Swiss franc is hedged by purchasing forward purchase agreements in each of the other currencies in which investments are held.

ILO forward purchase agreement within the portfolio

61. The risk related to financial assets held in the portfolio in currencies other than US dollar is minimized by hedging the risk using derivative instruments.

ILO regular budget forward purchase agreement

62. The primary source of revenue to finance the Organization's regular budget activities comes from contributions assessed on member States that are paid in Swiss francs. Prior to the beginning of each biennial financial period, the Organization hedges its forecast US dollar requirements for the following two years with foreign exchange forward purchases. Derivative financial instruments in the form of forward purchase agreements are therefore acquired for the purpose of ensuring that the amount of Swiss francs receivable from member States for their assessed contributions for the following biennium are sufficient to meet the ILO's US dollar requirements for its regular budget. The forward purchase agreements mature monthly and the monthly amounts are established based on the regular budget's forecast US dollar cash flow requirements over the biennium.

63. The ILO regular budget forward purchase agreements are designated as cash flow hedges. The changes of derivatives' value during the period was as follows:

(US\$ millions)	2016	2015
Fair value as at 1 January	23.9	10.3
Derivatives exercised during the period and recognised in net asset	(9.6)	(9.0)
Derivatives exercised during the period and recognised in surplus (deficit)	(4.2)	(1.3)
Change in fair value of the spot element recognized in net assets	4.1	19.7
Change in fair value of the forward element recognized in surplus (deficit)	4.2	4.2
Total fair value as at 31 December	18.4	23.9

64. The cash flow hedges were highly effective in 2016. The amount reclassified from net assets and included in the consolidated statement of financial performance as exchange gain (loss) and the amounts retained in net assets at the end of the year are as follows:

Net assets: Value of outstanding derivatives (US\$ millions)	2016	2015
Opening balance as at 1 January (note 20)	19.7	9.0
Reclassification during the year to exchange gain (loss) and revaluation, net (effective hedge of the spot element – transactions realized during the period)	(9.6)	(9.0)
Net gain (loss) during the year recognized in net assets (effective hedge of the spot element – forecasted transactions for 2017)	4.1	19.7
Closing balance as at 31 December (note 20)	14.2	19.7

65. The amounts retained in net assets as at 31 December 2016 are expected to mature and affect the consolidated statement of financial performance in 2017 at the recognition of the 2017 assessed contributions from member States.

Note 8 – Investments

66. The Organization maintains five investment portfolios of identified financial instruments managed by external investment managers consisting principally of fixed income investments and unit funds. Investments include cash and cash equivalents which are excluded from the cash and cash equivalents section as they are part of a portfolio investment which are intended to be kept for the long term and reinvested.

67. Investments are placed in line with the approved investment policy in consultation with the ILO's Investments Committee and their performance is evaluated on a fair value basis.

68. The fair value and historic cost as at the reporting date is as follows:

(US\$ millions)	2016		2015	
	Fair value	Cost	Fair value	Cost
Investments – Current				
ILO short-term deposit	110.0	110.0	60.0	60.0
ITC one year term deposit	2.1	2.1	7.5	7.5
Subtotal investment – Current	112.1	112.1	67.5	67.5
Investments – Non-current				
Cash within the portfolios	1.0	1.0	(0.1)	(0.1)
Fixed income				
Bonds	70.9	70.4	73.0	73.0
Floating rate notes	25.4	25.5	27.3	27.3
Money market	24.4	24.3	21.0	21.0
Total fixed income investments	120.7	120.2	121.3	121.3
Unit funds	104.1	102.9	105.1	104.8
Subtotal investment – Non-current	225.8	224.1	226.3	226.0
Total investment	337.9	336.2	293.8	293.5

69. The movement of the investments during the reporting period is as follows:

(US\$ millions)	2016	2015
Fair value as at 1 January	293.8	150.4
Interest and net gain (loss) on investments	(0.5)	(0.9)
New investment during the period	112.1	147.1
Disposal of investments during the period	(67.5)	(2.8)
Fair value as at 31 December	337.9	293.8

70. Current investments include short-term deposits with maturity between 90 days and one year as at 31 December 2016.

71. Short-term deposits with a remaining term of less than 90 days as at 31 December 2016 are included under cash and cash equivalents (note 4) which better reflects their liquidity as at the reporting date. As of 31 December 2016 such deposits amounted to US\$10 million.

72. In 2015, two new portfolios in Swiss francs and US dollars were created, investing in unit funds. They represent general funds of the ILO which are not expected to be required for immediate operational purposes.

Note 9 – Other receivables

73. Other receivables are as follows:

(US\$ millions)	2016	2015
US income taxes	4.1	6.1
Receivable from UNDP	1.0	1.7
Other receivables	4.6	4.4
Total other receivables	9.7	12.2

74. An ageing of other receivables is as follows:

(US\$ millions)	2016	2015
Less than 1 year	7.6	8.0
1–2 years	0.6	2.3
Over 2 years	1.5	1.9
Total	9.7	12.2

Note 10 – Inventories

75. The movement of inventories during the reporting period is as follows:

(US\$ millions)	Production supplies	Publications	2016 total	2015 total
Balance as at 1 January	0.3	4.6	4.9	6.1
Produced and purchased	0.9	6.6	7.5	7.7
Inventory available	1.2	11.2	12.4	13.8
Less: Expensed	(0.9)	(4.2)	(5.1)	(5.1)
Less: Write-down	–	(1.3)	(1.3)	(1.3)
Less: Write-off	–	(2.1)	(2.1)	(2.5)
Balance as at 31 December	0.3	3.6	3.9	4.9

Note 11 – Other current assets

76. Other current assets as at the reporting date are as follows:

(US\$ millions)	2016	2015
Staff advances	8.4	8.7
Advances to implementing partners	1.0	0.9
Other	5.2	4.4
Total other current assets	14.6	14.0

Note 12 – Investment property

77. In March 2014, following the completion of rezoning formalities by the local authority, at its 320th Session, the Governing Body confirmed its decision to sell two plots of land in Geneva, one of them owned and the other one held as long-term leasehold by the ILO, to partially fund the building renovation project. Following the change in use, starting from April 2014, these two plots of land were considered as investment properties.

78. In 2015, the land owned by the ILO was sold to a non-related party for CHF26 million (US\$27 million), resulting in a gain on sale of US\$6.1 million.

79. In March 2016 an agreement was reached with the State of Geneva to relinquish the ILO's rights under a 99 year leasehold on a plot of land located in Geneva, Switzerland. Based on the agreement reached, the Office relinquished its leasehold and in return received freehold title to one half of the property. The entire freehold property received was sold concurrently to a non-related party for CHF28 million. The transaction was considered as a subsequent event as at 31 December 2015 and the fair value of the leasehold land as at that date was estimated based on the proceeds from the subsequent sale (US\$28.3 million using the exchange rate as at the reporting date). The fair value adjustment in 2015 on the leasehold land resulted in a loss of US\$8.2 million.

80. The movement of investment property during the reporting period is as follows:

(US\$ millions)	2016	2015
Opening balance as at 1 January	28.3	57.5
Disposals	(28.4)	(27.0)
Gain on sale of investment property	0.1	6.1
Gains (losses) from fair value adjustments	–	(8.2)
Fair value adjustment resulting from net exchange differences	–	(0.2)
Closing balance as at 31 December	–	28.3

Note 13 – Property and equipment

81. The movement of property and equipment by asset class during the reporting period is as follows:

(US\$ millions)	Land	Buildings	Leasehold improvements	Equipment	Total
Net carrying amount as at 31 December 2014	310.2	162.5	9.6	5.1	487.4
Additions	–	17.7	0.1	4.1	21.9
Disposals	–	–	–	–	–
Depreciation	–	(1.8)	(0.6)	(1.3)	(3.7)
Exchange adjustment – Cost	–	–	(1.3)	(0.2)	(1.5)
Exchange adjustment – Depreciation	–	–	0.3	–	0.3
Net revaluation recognized in net assets	(1.2)	(27.3)	–	–	(28.5)
Subtotal 2015 movement	(1.2)	(11.4)	(1.5)	2.6	(11.5)
Closing balance as at 31 December 2015	309.0	151.1	8.1	7.7	475.9
Gross carrying amount as at 31 December 2015	309.0	151.1	11.8	10.6	482.5
Accumulated depreciation	–	–	(3.7)	(2.9)	(6.6)
Net carrying amount as at 31 December 2015	309.0	151.1	8.1	7.7	475.9

(US\$ millions)	Land	Buildings	Leasehold improvements	Equipment	Total
Net carrying amount as at 31 December 2015	309.0	151.1	8.1	7.7	475.9
Additions	–	34.3	0.1	0.8	35.2
Disposals	–	–	–	–	–
Depreciation	–	(1.7)	(0.6)	(2.0)	(4.3)
Exchange adjustment – Cost	–	–	(0.5)	(0.1)	(0.6)
Exchange adjustment – Depreciation	–	–	0.1	0.1	0.2
Net revaluation recognized in net assets	68.4	10.3	–	–	78.7
Subtotal 2016 movement	68.4	42.9	(0.9)	(1.2)	109.2
Closing balance as at 31 December 2016	377.4	194.0	7.2	6.5	585.1
Gross carrying amount as at 31 December 2016	377.4	194.0	11.4	11.3	594.1
Accumulated depreciation	–	–	(4.2)	(4.8)	(9.0)
Net carrying amount as at 31 December 2016	377.4	194.0	7.2	6.5	585.1

Land and buildings

82. The Organization owns its headquarters building in Geneva, Switzerland, and the land upon which it was built along with an adjoining plot.

83. In addition, the Organization owns land and buildings in Abidjan, Côte d'Ivoire, Lima, Peru, and Santiago, Chile. In Buenos Aires, Argentina, and Brussels, Belgium, the Organization owns apartments located in buildings for which no separate land ownership exists. In Brasilia, Brazil, Dar es Salaam, United Republic of Tanzania, and Islamabad, Pakistan, it further owns buildings located on land to which the ILO has surface rights or leaseholds at a nominal cost (note 28).

84. In order to more accurately reflect the value of its land and buildings, an independent appraiser reviewed and updated the fair value of all properties as at 31 December 2016 based on international valuation standards as promulgated by the International Valuation Standards Council, including assumptions relating to current market conditions. The change in fair value of the land and buildings in 2016 includes US\$14.4 million revaluation losses due to currency rate fluctuation. The net difference between historical cost and land and buildings valued at fair value is recognized as a separate component of the net assets as shown in note 20.

85. One third of the headquarter building in Geneva was under renovation in 2016. The related capital expenditures are presented as “Additions” to “Buildings”.

Leasehold improvements

86. The Organization has also constructed improvements on leasehold property in New Delhi, India, and the Piedmont Pavilion and renovations to other buildings at the ITC.



Note 14 – Intangible assets

87. The movement of intangible assets by class during the reporting period is as follows:

(US\$ millions)	Software acquired externally	Software internally developed	Total
Net carrying amount as at 31 December 2014	0.4	1.7	2.1
Additions	0.4	0.4	0.8
Disposals	–	–	–
Amortization	(0.1)	(0.4)	(0.5)
Exchange adjustment – Cost	–	–	–
Exchange adjustment – Amortization	–	–	–
Subtotal 2015 movement	0.3	(0.1)	0.2
Closing balance as at 31 December 2015	0.7	1.6	2.3
Gross carrying amount as at 31 December 2015	0.9	2.3	3.2
Accumulated amortization	(0.2)	(0.7)	(0.9)
Net carrying amount as at 31 December 2015	0.7	1.6	2.3
Additions	0.1	0.3	0.4
Disposals	–	–	–
Amortization	(0.2)	(0.4)	(0.6)
Exchange adjustment – Cost	–	–	–
Exchange adjustment – Amortization	–	–	–
Subtotal 2016 movement	(0.1)	(0.1)	(0.2)
Closing balance as at 31 December 2016	0.6	1.5	2.1
Gross carrying amount as at 31 December 2016	1.0	2.6	3.6
Accumulated amortization	(0.4)	(1.1)	(1.5)
Net carrying amount as at 31 December 2016	0.6	1.5	2.1

Note 15 – Deferred revenue

88. Deferred revenue as at the reporting date is as follows:

(US\$ millions)	2016	2015
Deferred revenue – Current		
Assessed contributions received in advance	35.2	38.6
Voluntary contributions receivable relating to signed agreements	222.9	219.0
Due to donors (including ITC)	211.8	178.4
Receivables relating to signed agreements on ITC training services	1.2	2.4
SHIF contributions received in advance	0.6	0.6
Other deferred revenue	0.1	0.3
Subtotal current deferred revenue	471.8	439.3
Deferred revenue – Non-current		
Voluntary contributions receivable relating to signed agreements	53.8	44.8
Receivables relating to signed agreements on ITC training services	0.2	0.4
Subtotal non-current deferred revenue	54.0	45.2
Total deferred revenue	525.8	484.5

89. The deferred voluntary contribution revenue represents the amount receivable pending on the completion of the performance required by agreements between the Organization and the donors (note 6).

Note 16 – Employee benefits

90. The employee benefits liabilities at the reporting date are as follows:

(US\$ millions)	2016	2015
Current liabilities		
Education grant	2.4	3.0
Accumulated leave	20.6	21.3
Home leave	0.4	0.4
Agreed termination	–	0.1
Repatriation entitlements	3.5	3.5
ASHI liability	23.2	22.1
Subtotal current liabilities	50.1	50.4
Non-current liabilities		
Accumulated leave	12.7	13.3
Repatriation entitlements	43.3	45.4
ASHI liability	1 284.1	1 137.1
Subtotal non-current liabilities	1 340.1	1 195.8
Total employee benefit liabilities	1 390.2	1 246.2

91. Employee benefits are established in accordance with the *Staff Regulations* of the ILO and the ITC, and the *SHIF Regulations and Administrative Rules*.

Post-employment benefits

United Nations Joint Staff Pension Fund

92. The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

93. The ILO's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under 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. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

94. The actuarial valuation performed as at 31 December 2015 revealed an actuarial surplus of 0.16 per cent (a deficit of 0.72 per cent in the 2013 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance

as at 31 December 2015 was 23.54 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent. The next actuarial valuation will be conducted as at 31 December 2017.

95. As at 31 December 2015, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 141.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 100.9 per cent (91.2 per cent in the 2013 valuation) when the current system of pension adjustments was taken into account.

96. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2015, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of this report, the General Assembly had not invoked the provision of article 26.

97. During 2016, the ILO's contributions paid to the UNJSPF amounted to US\$51 million (US\$52 million in 2015). Expected contributions due in 2017 are US\$52 million.

98. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

After-service health insurance plan (ASHI)

99. An actuarial valuation carried out in 2016 calculated the ILO's estimated liability for after-service medical benefits at the reporting date as described in the following paragraphs.

100. Each year, the ILO reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements for the ILO's after-service medical care plans. For the 2016 valuation, the assumptions and methods used are as described below.

Key financial assumptions	2016 (%)	2015 (%)
Discount rate	ILO: 1.34 ITC: 1.95 ISSA: 0.77	ILO: 1.66 ITC: 2.66 ISSA: 1.01
Rate of future compensation increases	UNJSPF rate (3.5 + static salary scale)	UNJSPF rate (3.5 + static salary scale)
Rate of pension increases	3.00	3.00
Medical inflation	3.80 from 2016 decreasing by 0.20 per year to 3.00	4.00 from 2015 decreasing by 0.20 per year to 3.00

101. The discount rate is determined by reference to market yields at the reporting date on high-quality corporate bonds. Based on the plan duration, the discount rate has been determined for each major currency in which the SHIF incurs liabilities (CHF, £, US\$, €). The final rate was then determined by averaging the different discount rates, weighted by the benefit payments in the different currencies.



102. Should the assumptions about medical cost trends described above change, this would impact the measurement of the ASHI liability as follows:

Sensitivity information for health-care plans (US\$ millions)	2016	2015
1 per cent increase in health-care trend rate – Effect on service and interest costs	29.5	23.1
1 per cent decrease in health-care trend rate – Effect on service and interest costs	(21.3)	(17.1)
1 per cent increase in health-care trend rate – Effect on defined benefit obligation (DBO)	330.4	256.0
1 per cent decrease in health-care trend rate – Effect on DBO	(252.6)	(199.7)

103. The following table shows the change in present value of the defined benefit obligation during the reporting period.

(US\$ millions)	2016	2015
Defined benefit obligation, beginning of year	1 159.2	1 088.2
Current service cost	40.5	36.9
Interest cost	19.6	20.0
Net benefits paid	(23.2)	(22.1)
Actuarial (gain) loss due to experience	4.4	5.4
Actuarial (gain) loss due to assumption changes	106.8	30.8
Defined benefit obligation, end of year	1 307.3	1 159.2
Consolidated statement of financial position asset (liability), beginning of year	(1 159.2)	(1 088.2)
Total (charge) credit for interest cost and current service cost	(60.1)	(56.9)
Net benefits paid	23.2	22.1
Total (charge) credit recognized in consolidated statement of financial performance	(36.9)	(34.8)
Total (charge) credit recognized in net assets	(111.2)	(36.2)
Consolidated statement of financial position liability, end of year	(1 307.3)	(1 159.2)

104. The trend over the past five years of the defined benefit obligations and the experience adjustments is as follows:

(US\$ millions)	2016	2015	2014	2013	2012
Defined benefit obligation	1 307.3	1 159.2	1 088.2	811.8	870.8
Plan assets at fair value	–	–	–	–	–
Surplus (deficit)	(36.9)	(34.8)	(25.8)	(31.9)	(20.6)
Actuarial (gain) loss due to experience	4.4	5.4	11.4	1.3	4.8

105. Expenses related to interest cost and current services costs for 2016 have been recognized in the consolidated statement of financial performance as staff costs. Cumulative net actuarial losses of US\$637.9 million (cumulative net actuarial loss of US\$526.6 million as at 31 December 2015) have been recognized in net assets. Under IPSAS-25, the ASHI liability is considered unfunded and, therefore, no fair value of plan assets has been offset against the liability. However, an amount of US\$61.4 million is available in a SHIF Guarantee Fund (US\$61.6 million as at 31 December 2015) to cover future liabilities of SHIF. In addition, an amount of US\$4.8 million has been reserved to partially fund the ASHI liability. The total contribution paid to the ASHI Liability Reserve in 2016 was US\$1.2 million (US\$1.2 million in 2015).

106. The ILO finances its ASHI liability on a pay-as-you-go basis. The Programme and Budget for 2016–17 includes a provision of US\$29.9 million for this purpose.

Repatriation entitlements

107. An actuarial valuation carried out in 2016 calculated the ILO's estimated liability for repatriation entitlements at the reporting date as described in the following paragraphs.

108. Each year, the ILO reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements for the ILO's repatriation entitlements. For the 2016 valuation, the assumptions and methods used are as described below.

Key financial assumptions	2016 (%)	2015 (%)
Discount rate	Repatriation entitlement: 3.94 End of service payment: 1.42	Repatriation entitlement: 4.11 End of service payment: 2.03
Rate of future compensation increases: Repatriation grant and End of service	UNJSPF rate (3.5 + static salary scale)	UNJSPF rate (3.5 + static salary scale)
Rate of future cost increases: Repatriation travel and removal costs	3.00	3.00
Probability of benefit claim	ILO repatriation grant: 76 ITC Repatriation grant: 100 ILO travel and removal: 77.8 ITC travel and removal: 95	ILO repatriation grant: 76 ITC Repatriation grant: 100 ILO travel and removal: 77 ITC travel and removal: 90

109. The discount rates were determined for the currencies US dollar and euro by reference to the AA corporate bond yield curve in the respective currency as at 31 December 2016.

110. The following table shows the change in present value of the defined benefit obligation during the reporting period:

(US\$ millions)	2016	2015
Defined benefit obligation, beginning of year	48.9	57.7
Current service cost	2.6	2.2
Past service costs	–	–
Interest cost	1.7	1.7
Net benefits paid	(4.1)	(3.4)
Actuarial (gain) loss due to experience	(1.4)	3.6
Actuarial (gain) loss due to assumption changes	(0.9)	(12.9)
Defined benefit obligation, end of year	46.8	48.9
Consolidated statement of financial position asset (liability), beginning of year	(48.9)	(57.7)
Total (charge) credit for interest cost and current service cost	(4.3)	(3.9)
Net benefits paid	4.1	3.4
Total (charge) credit recognized in consolidated statement of financial performance	(0.2)	(0.5)
Total (charge) credit recognized in net assets	2.3	9.3
Consolidated statement of financial position liability, end of year	(46.8)	(48.9)

111. The trend over the four past years of the defined benefit obligations and the experience adjustments is as follows:

(US\$ millions)	2016	2015	2014	2013
Defined benefit obligation	46.8	48.9	57.7	48.5
Plan assets at fair value	–	–	–	–
Surplus (deficit)	(0.2)	(0.5)	(3.8)	1.4
Actuarial (gain) loss due to experience	(1.4)	3.6	(1.5)	0.5

112. Expenses related to interest cost and current services costs for 2016 have been recognized in the consolidated statement of financial performance as staff costs. Cumulative net actuarial losses of US\$1.5 million (cumulative net actuarial loss of US\$0.8 million as at 31 December 2015) have been recognized in net assets. Under IPSAS-25, the repatriation entitlement liability is considered unfunded and, therefore, no fair value of plan assets has been offset against the liability. However, an amount of US\$40.5 million has been reserved by the ILO in the Terminal Benefits Fund (US\$38.8 million as at 31 December 2015) to partially cover the repatriation grant. The total contribution paid to the Terminal Benefits Fund in 2016 was US\$4.8 million (US\$4.8 million in 2015).

Note 17 – Borrowings

113. Borrowings consist of a loan in Swiss francs made to the ILO from the Foundation for Buildings for International Organisations (FIPOI) for the construction of the ILO's headquarters building with an original interest rate based on market rates. The interest was subsequently waived by the Swiss Confederation in 1996. The loan is unsecured.

(US\$ millions)	2016	2015
Nominal value at beginning of period	37.4	41.3
Repaid in current period	(3.8)	(3.9)
Exchange rate effect	(1.1)	–
Nominal value at end of period	32.5	37.4
Fair value adjustment beginning of period	(4.1)	(4.8)
Exchange rate effect	0.2	–
Amortization using effective interest rate	0.7	0.7
Fair value adjustment end of period	(3.2)	(4.1)
Total borrowings	29.3	33.3

114. The loan is repayable in annual instalments and the final payment will be due in 2025. The annual payments in nominal value are as follows:

(US\$ millions)	2016	2015
Payments due next year	3.6	3.7
Payments due from second to fifth year (CHF3.7 million per year)	14.4	15.0
Payments due after five years	14.5	18.7
Nominal value at end of period	32.5	37.4

Note 18 – Due to member States

115. The amount due to member States at the reporting date is calculated as follows:

(US\$)	2016	2015
Undistributed surpluses of prior periods	104 660	137 965
Undistributed net premia of prior periods	236 567	314 309
Undistributed 50 per cent of net premia	198 853	205 675
Subtotal	540 079	657 949
Incentive Fund	379 321	351 815
Total payable to member States	919 400	1 009 764
■ Due to member States – Current	399 230	181 565
■ Due to member States – Non-current	520 170	828 199

116. In accordance with article 11 of the ILO Financial Regulations, the net premium due to member States is determined on a biennial basis at the end of the second year of the biennium. The 2016 amount was included as a separate element of accumulated fund balance pending the biennial results.

Calculation of net premium and Incentive Fund

117. The Financial Regulations provide for the distribution of elements of the net result of operations of the regular budget as follows:

- Net premium – Article 11(5) and (7) provides for distribution to member States of one half of any net premium earned on the forward purchasing transactions between US dollars and Swiss francs to member States apportioned on the basis of the proportion of the total of each member State's assessed contributions during the biennium in which the net premium was earned and credited against assessed contributions payable in the next financial period. The remaining one half of the net premium is transferred to the Incentive Fund.
- Incentive Fund – Article 11(4)–(6) provides for an Incentive Fund financed by 60 per cent of the interest earned on temporarily surplus regular budget funds and one half of any net premium earned on the forward purchasing transactions. The Incentive Fund is distributed to member States that have paid their assessed contributions in full at the end of either the first or second year of the biennium financial period during which the net premium was earned.

Composition of Incentive Fund (US\$)	2016	2015
Interest earned in current year	118 674	63 914
Interest earned in prior year	61 794	82 226
Total interest earned	180 468	146 140
50 per cent of net premium	198 853	205 675
Total available in Incentive Fund	379 321	351 815



Note 19 – Other current liabilities

118. Other current liabilities at the reporting date are as follows:

(US\$ millions)	2016	2015
Due to ITU	1.8	1.8
Provisions for contingencies	0.3	0.4
Other	1.7	1.4
Total other current liabilities	3.8	3.6

119. The amount due to ITU represents ITU's share of the SHIF guarantee fund balance following its withdrawal from the SHIF.

120. Provisions for contingencies are recognized for legal cases pending before the ILO Administrative Tribunal for which it is more likely than not that the ILO will be required to settle the obligation and the amount can be reliably measured. The movement of provisions for contingencies during the reporting period is as follows:

(US\$ millions)	2016	2015
Balance as at 1 January	0.4	0.8
Additional provisions raised during the period	0.2	–
Provisions used during the period	(0.1)	(0.2)
Unused provisions reversed during the period	(0.2)	(0.2)
Balance as at 31 December	0.3	0.4

Note 20 – Reserves and accumulated balances

121. Net assets represent the value of the Organization's assets less its outstanding liabilities at the reporting date. Net assets consist of the following elements:

- *Reserves*: represent the balances of special funds established by the Governing Body, the ILC or the Financial Regulations and include:
 - *Working Capital Fund* to finance budgetary expenditure pending receipt of assessed contributions and, with Governing Body approval, provide advances to meet emergencies.
 - *Income Adjustment Account* to provide temporary funding when the Working Capital Fund proves insufficient to cover regular budget deficits.
 - *Terminal Benefits Fund* to finance payments of repatriation grant and end-of-service benefits. The ILO makes a defined contribution to the Fund as a percentage of compensation paid to eligible employees during the financial period.
 - *Fidelity Guarantee Fund* to finance losses due to theft or misappropriation.
 - *Extra-budgetary reserve* to finance costs incurred in connection with development cooperation projects not reimbursed by donors.
 - ILO portion of the *SHIF Guarantee Fund*.
 - *ASHI Liability Reserve* established to partially fund the ASHI liability.
 - The ITC's *Working Capital Fund* established in accordance with the Financial Regulations of the Centre.

□ *Accumulated balances* include:

- *Employee benefits*: represent initial recognition of the employee liabilities and subsequent impact of changes in actuarial gains and losses.
- *Revaluation surplus of land and buildings*: represents the accumulated difference between the historic cost of land and buildings and the fair value as determined by the independent valuation. In 2016, US\$41.4 million (US\$23.3 million in 2015) have been transferred from revaluation surplus of land and buildings to the accumulated surplus following the sale of the ILO's investment property.
- *Value of outstanding derivatives*: represents the portion of the unrealized gain or loss on the change in value of the forward purchase agreement that is used to meet the ILO's regular budget requirements for US dollars, acquired through the sale of Swiss francs obtained from member States' assessed contributions and accounted for as cash flow hedge using hedge accounting that is attributable to changes in the spot US dollar to Swiss franc exchange rate.
- *Translation difference*: represents the foreign exchange difference resulting from the consolidation of ITC's euro-based accounts.
- *Accumulated surpluses (deficits)*: represent the accumulated surpluses and deficits from the Organization's operations after deducting funds returned to member States in accordance with the Financial Regulations.

122. Reserves and accumulated balances as at the reporting date are as follows:

(US\$ thousands)	2016	2015
Reserves		
Working Capital Fund	34 146	19 118
Income Adjustment Account	60 020	61 905
Terminal Benefit Fund	40 501	38 819
Fidelity Guarantee Fund	1 344	1 341
Extra-budgetary Fund	25	25
SHIF Guarantee Fund (ILO portion)	61 364	61 652
ASHI Liability Reserve	4 823	3 625
ITC's Working Capital Fund	2 882	2 882
Total reserves	205 105	189 367
Accumulated balances		
Employee benefits	(1 200 820)	(1 091 868)
Revaluation surplus of land and buildings	436 601	399 314
Value of outstanding derivatives	14 271	19 727
Translation difference	(6 785)	(5 770)
Accumulated surplus	284 650	280 695
Total accumulated balances	(472 083)	(397 902)
Total net assets	(266 978)	(208 535)

Note 21 – Expenses

123. The ILO has the following main categories of expenses as presented in Statement II:

- ❑ *Salaries, employee benefits and other personnel costs:* cover all entitlements for active officials of all grades as authorized by the Staff Regulations. Also include the current period interest cost and current service cost related to the ASHI liability.
- ❑ *Travel:* includes expenses related to official travel for staff and delegates to meetings.
- ❑ *Subcontracts:* expenses related to externally provided services for the delivery of outputs.
- ❑ *General operating expenses:* include all charges for the operation, maintenance and security of ILO premises (owned, leased and donated); communication costs including postage, telephone and internet services; freight expense; and insurance.
- ❑ *Supplies, materials and small equipment:* covers the costs of consumables used in ILO day-to-day operations including office supplies, paper, books and other publications, computer and printer supplies, equipment and intangible assets which do not meet the capitalization policy, and vehicle fuel.
- ❑ *Depreciation and amortization:* cover the costs of depreciation of buildings, equipment and leasehold improvements and amortization of the costs of intangible assets including externally acquired and internally developed software.
- ❑ *Seminars, workshops and other training:* covers the costs of delivering training, including the costs of facilities, consultants, materials, subsistence payments and travel of officials and attendees to training-related events.
- ❑ *Staff development:* expenses related to staff training and development including rental of space, participant travel, and presenter fees and travel costs.
- ❑ *Health benefits:* all payments made by SHIF on behalf of active or former ILO officials or dependants.
- ❑ *Contributions and grants in aid:* cover expenses under regular budget development cooperation activities and contributions made to jointly funded bodies.
- ❑ *Finance expenses:* include bank charges and custody fees paid in connection with the management of ILO bank accounts, disbursements and investments together with adjustments relating to discounting of non-current receivables and borrowings.
- ❑ *Other expenses:* expenses that cannot be reported under the classifications above.



Note 22 – Financial instruments

124. Financial instruments are categorized and measured as follows:

	Classification	Measurement
Cash and cash equivalents	Cash and cash equivalents	Fair value through surplus or deficit (level 1)
Contributions receivables – Assessed contributions	Loans and receivables	Amortized cost
Contributions receivables – Voluntary contributions	Loans and receivables	Amortized cost
Derivative assets and liabilities excluding effective hedging instruments	Held for trading	Fair value through surplus or deficit (level 2)
Derivative assets and liabilities arising from effective hedging instruments	Held for trading	Fair value through net assets for effective hedging(level 2)
Other receivables	Loans and receivables	Amortized cost
Investments	Designated as at fair value through surplus or deficit upon initial recognition	Fair value through surplus or deficit (level 1 or 2)
Payables	Financial liabilities	Amortized cost
Borrowings	Financial liabilities	Amortized cost

125. The fair values of cash, cash equivalents, investments-current and fixed-income investments (bonds) are determined using quoted prices in active market (level 1). The fair value of fixed income investments (floating rate notes and money market), unit funds and forward purchase agreements are provided by banks or investment portfolio managers based on price models using observable market prices (level 2).

126. The carrying amount of the ILO's financial instruments at amortized cost is a reasonable approximation of their fair value

Financial risk management

127. The ILO's activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The ILO's investment management programme focuses on these risks and seeks to minimize potential effects on financial performance.

Market risk

128. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

129. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

130. The ILO is exposed to foreign exchange risk on revenues and expenses denominated in foreign currencies, predominately Swiss francs along with minor exposure to other currencies, in particular the euro. The ILO's primary objectives in managing currency risk are to preserve cash flows and reduce variations in performance from the negative impact of exchange rate fluctuation.



131. The ILO mitigates the currency fluctuation risk to its regular budget by naturally hedging through receipt of revenue in Swiss francs from assessed contributions in an amount sufficient to finance its current Swiss franc liabilities and entering into forward purchase agreements to finance its US dollar-based liabilities.

132. The ILO also enters into forward purchase agreements to hedge the non-Swiss franc investments held on behalf of the SHIF against currency gains or losses, since the SHIF's liabilities are predominately Swiss franc-based.

133. The ILO receives voluntary contributions to finance development cooperation projects in currencies other than US dollars. These funds are converted to US dollars to meet cash flow requirements. No currency exposure exists as the related development cooperation project budgets are adjusted to reflect the US dollars equivalent amount of the funds received.

134. The table below shows the impact on surplus/deficit and net assets as of 31 December 2016, if the major currencies to which the Organization was exposed, weakened or strengthened by 5 per cent against the US dollar:

(US\$ millions)	Impact on surplus/deficit		Impact on net assets	
	CHF ¹	€ ²	CHF ¹	€ ²
5 per cent depreciation of the foreign currency against US\$:				
Financial assets and liabilities other than derivative instruments	(17.7)	(0.5)	–	–
Derivative instruments	(0.1)	–	7.6	–
Total impact	(17.8)	(0.5)	7.6	–
5 per cent appreciation of the foreign currency against US\$:				
Financial assets and liabilities other than derivative instruments	19.6	0.5	–	–
Derivative instruments	0.1	–	(8.3)	–
Total impact	19.7	0.5	(8.3)	–

¹ The UN operational rate of exchange was US\$1 = CHF1.025 as at 31 December 2016.

² The UN operational rate of exchange was US\$1 = €0.956 as at 31 December 2016.

135. The assets and liabilities held in Swiss francs and euro are generally matched to the underlying fund currency. Therefore, while there may be an impact in US dollar terms, the substantive effect in the underlying currency would be immaterial.

136. The assets and liabilities held in other currencies are minor. The movements in exchange rates against the US dollar of these currencies would not have a material impact on the consolidated statement of financial position or consolidated statement of financial performance.

Interest rate risk

137. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

138. The ILO is exposed to interest rate risk through its interest-bearing financial assets and fixed-income instruments. The impact of an increase or decrease in interest rates by 50 basis points is estimated as an increase or decrease on the surplus/(deficit) of the year by US\$1.5 million. The ILO believes that it is not subject to significant interest rate risk.

The ILO mitigates its interest rate risk by adjusting the maturities of investments in accordance with expected changes in global economic environment.

Credit risk

139. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

140. The ILO is exposed to credit risk through its cash and cash equivalents, investments, accounts receivable and derivative assets. The maximum exposure to credit risk is the carrying value of these assets.

141. The ILO's investment policies limit the amount of credit exposure to any one counter-party and include conservative minimum credit quality requirements of investment grade.

142. Cash deposits and investments are widely spread in order to avoid an over-concentration of funds with few institutions. The total percentage of ILO cash and investments that may be placed with a single institution or investments is determined according to its long-term credit rating. Funds are generally deposited or invested only with institutions maintaining a long-term credit rating of A or higher, except where local banking conditions require the use of banks with a lower international rating but a good record of performance locally.

143. As at the reporting date, the rating of banks in which cash and short-term deposits are held and the rating of the investments are as follows:

Credit rating ¹	Cash and cash equivalents		Investments	
	Carrying amount (US\$ millions)	%	Carrying amount (US\$ millions)	%
AAA	–	–	42.5	12.6
AA	36.6	9.6	31.9	9.4
A	347.5	89.1	146.7	43.4
BBB	5.8	0.6	11.9	3.5
<BBB	2.4	0.6	–	–
Not rated	0.5 ²	0.1	104.9 ³	31.1
Total	392.8	100.0	337.9	100.0

¹ The rating is based on long-term credit ratings by Fitch; where unavailable equivalent ratings by Standard and Poor's and Moody's were utilized. The A rating category includes A+ and A-, the AA rating category includes AA+ and AA-.

² The ILO implements projects worldwide. A small part of the bank accounts operating outside of Geneva are held with banks not rated by reference to external credit ratings.

³ Investments by the ILO in unit funds which are not rated by credit rating agencies but have adequate disclosure on the underlying asset credit risk.

144. The ILO manages its exposure to derivative counterparty credit risk by contracting primarily with reputable financial institutions (A rated). As at the end of the year, the rating of derivatives counterparties was A+ within a maximum exposure of US\$19.2 million.

145. The ILO is not exposed to material credit risk related to account receivables as contributions are due primarily from large regulatory or governmental bodies.

Liquidity risk

146. Liquidity risk is the risk that the ILO will encounter difficulties in meeting its financial obligations associated with financial liabilities.

147. The ILO manages liquidity risk by continuously monitoring actual and estimated cash flows. The ILO's total current assets of US\$839.5 million are sufficient to settle its current financial liabilities of US\$563.8 million. On an ongoing basis, it is anticipated that the ILO will continue to have sufficient liquidity to meet its financial obligations.

Capital management

148. The ILO defines the capital that it manages as the aggregate of its net assets which is comprised of accumulated balances and reserves. The ILO's objectives in managing capital are to safeguard its ability to continue as a going concern to fund its asset base and to fulfil its mission and objectives as established by its member States and donors. The ILO's overall strategy with respect to capital management includes the balancing of its operating and capital activities with its funding on a biennial basis along with the hedging of its expense requirements in US dollars against its Swiss franc-based revenue from member States' assessments.

149. The ILO manages its capital structure in light of global economic conditions, the risk characteristics of the underlying assets and working capital requirements. The ILO manages its capital by reviewing on a regular basis the actual results against the budgets approved by member States.

Note 23 – Operating leases

150. The ILO enters into operating lease arrangements for the use of field and regional office premises and for the use of photocopying and printing equipment. Some of these leases contain renewal and escalation clauses based generally on local inflationary indices.

151. The total amount paid by the ILO to other UN agencies under cost-sharing agreements based on the reimbursement of actual cost incurred was US\$1.9 million in 2016 (US\$1.8 million in 2015). The total amount of lease and sublease expense recognized in 2016 was US\$11.1 million (US\$10.5 million in 2015).

152. Future minimum lease rental payments for non-cancellable leases for the following periods are:

(US\$ millions)	2016	2015
Within one year	0.6	0.6
Later than one year and not later than five years	1.9	2.1
Later than five years	1.2	1.6
Total operating lease commitments	3.7	4.3

153. The total amount of rent earned under contingent lease agreements in 2016 was US\$0.7 million (US\$0.7 million in 2015), comprising an ITC cost-sharing agreement with other UN agencies with the rent based on reimbursement of actual cost incurred and a profit-sharing agreement with the catering operator in the Geneva premises based on a percentage of revenue.

Note 24 – Statement of comparison of budget and actual amounts

154. The ILO does not publish a consolidated budget. Consequently, separate statements of comparison of budget and actual amounts are prepared for each of the published budgets: the regular budget adopted by the ILC; the budget of CINTERFOR adopted by the ILO Governing Body; and the budget of the ITC adopted by the ITC Board of Directors. The approved budgets are governed by the Financial Regulations and are prepared on a different basis than that of the consolidated financial statements.

155. IPSAS requires that where the consolidated financial statements and the budget are not prepared on a comparable basis, a reconciliation be presented identifying separately any basis, timing and entity differences.

Basis difference

156. The consolidated statement of financial position, consolidated statement of financial performance, consolidated statement of changes in net assets and consolidated statement of cash flow are prepared on a full accrual basis while the approved budgets are prepared on a modified accrual basis. In addition, the ILO regular budget is prepared using a fixed budget rate of exchange. In the preparation of the consolidated financial statements all foreign currency transactions are converted to US dollars using the UN operational rate on the date of each transaction.

Timing difference

157. Timing differences occur as the ILO regular budget and CINTERFOR's budget are prepared and approved on a biennial basis while the financial statements are prepared on an annual basis.

Entity difference

158. Entity differences occur since the published approved budgets include only certain of the funds managed by the Organization, while the consolidated financial statements provide information of all the funds and entities of the ILO.

159. The following table provides a reconciliation of the result in accordance with the Financial Regulations and with IPSAS:

(US\$ thousands)	Regular budget	CINTERFOR	ITC	Subsidiary funds	Total
Net result per budgetary basis (Statement V)	21 042	211	1 167	–	22 420
Reconciling items from budgetary basis to IPSAS basis:					
Reimbursement of 2014–15 deficit financing	16 568	–	–	–	16 568
Treatment of exchange differences	3 169	–	–	–	3 169
Provision for assessed contributions receivable	(22 724)	–	–	–	(22 724)
Amortization of receivable from member States with financial arrangement	348	–	–	–	348
Recognition of inventory	(1 045)	–	–	–	(1 045)
Recognition of property and equipment	(1 161)	(19)	(360)	–	(1 540)
Recognition of intangible assets	131	–	–	–	131
Accrual of employee benefits	1 769	(37)	–	–	1 732
Provision for contingencies	127	–	–	–	127
Unrealized gain from forward purchase agreements	(49)	–	–	–	(49)
Accrual for ITC training services	(280)	–	–	–	(280)
Use of prior year surplus (ITC)	–	–	(1 024)	–	(1 024)
Delivery adjustment relating to the ILO (ITC)	–	–	384	–	384
Entity difference (ITC)	–	–	(1 343)	–	(1 343)
Subsidiary funds	–	–	–	(38 630)	(38 630)
Total differences	(3 147)	(56)	(2 343)	(38 630)	(44 176)
Net result per IPSAS basis	17 895	155	(1 176)	(38 630)	(21 756)



160. The following table provides a reconciliation between Statement V and Statement IV for the year ended 31 December 2016:

(US\$ thousands)	Operating	Investing	Financing	Total
Regular budget net result (Statement V-A)	21 042	–	–	21 042
CINTERFOR net result (Statement V-B)	211	–	–	211
ITC net result (Statement V-C)	1 167	–	–	1 167
Total surplus on budgetary basis	22 420	–	–	22 420
Total net result on basis comparable to the adopted budgets:				
Basis difference	(2 794)	(1 409)	–	(4 203)
Entity difference	52 688	(50 423)	(3 755)	(1 490)
Net cash flows	72 314	(51 832)	(3 755)	16 727
Effect of exchange rates on cash and cash equivalents				(9 924)
Actual amount in the consolidated statement of cash flow (Statement IV)				6 803

Note 25 – Related party disclosures

161. Key management personnel during the period were the Director-General, Deputy Directors-General, Assistant Director-General, Regional Directors, the Treasurer and Financial Comptroller and the Legal Adviser. The Governing Body consists of representatives of member States and constituents elected by the ILC who serve without compensation from the ILO and are not considered key management personnel.

162. The aggregate remuneration paid to key management personnel includes salaries and all allowances established in accordance with the ILO Staff Regulations and approved by the Governing Body. Key management personnel are members of the UNJSPF to which the personnel and the ILO contribute and are also eligible for participation in the SHIF including the after-service medical insurance if they meet the eligibility requirements in the SHIF Regulations and Administrative Rules.

Category	2016		2015	
	Individuals ¹	Remuneration (US\$)	Individuals ¹	Remuneration (US\$)
Key management	12.7	4 613 261	11.5	4 288 784

¹ Full-time equivalent.

163. The total amount of advances granted to key management personnel in 2016 was US\$19,540 (nil as at 31 December 2015). The outstanding balance as at 31 December 2016 was US\$3,908 (nil as at 31 December 2015).

164. There were no loans or advances granted to key management personnel and their close family members which were not available to other categories of staff in accordance with the ILO Staff Regulations.

165. There were related party transactions involving key management personnel in 2016 totalling US\$133,693 (US\$137,475 in 2015). All such transactions are under terms and conditions that would apply in the normal course of operations.

Note 26 – Revenue from non-exchange transactions

166. The primary source of revenue to the ILO is from non-exchange transactions including the assessed contributions paid by its member States and voluntary contributions made by donors to its development cooperation projects and RBSA.

(US\$ millions)	2016	2015
Assessed contributions from member States	382.9	386.7
Voluntary contributions to development cooperation projects, RBSA, and gifts and grants	220.6	260.6
ITC training services	12.6	14.1
Total revenue from non-exchange transactions	616.1	661.4
Receivables from assessed contributions (note 5)	75.8	99.1
Receivables from voluntary contributions (note 6)	276.0	267.2
Total receivables from non-exchange transactions	351.8	366.3
Liabilities recognized for conditional voluntary contributions	276.7	263.8
Liabilities recognized for ITC training services	1.4	2.8
Advance receipts from assessed contributions	35.2	38.6

Note 27 – Contingent assets and liabilities and commitments

Contingent assets

167. As at the reporting date, the ILO has the following contingent assets:

(US\$ millions)	2016
Member State contribution assessed for 2017 ¹	398.7
Revenue from voluntary ITC training services covering future periods	8.2
Contributions to the RBSA covering future periods	6.8
Total contingent assets	413.7

¹ CHF378.8 million at the budget rate of exchange of US\$1 = CHF0.95 adopted by the ILC for the 2016–17 biennium.

Contingent liabilities

168. The ILO has contingent liabilities of 0.1 million for claims or legal actions related to the ILO Administrative Tribunal (nil as at 31 December 2015).

Commitments

169. Outstanding contracts for renovation of the headquarters building totalled US\$121.3 million as at 31 December 2016 (US\$155.1 million as at 31 December 2015).

170. Future minimum lease rental payments for non-cancellable leases are presented in note 23.

Note 28 – Contributions in-kind

171. The ILO receives contributions in-kind from its member States of the right to use land, office space and other facilities in its operations. The major contributions over extended periods include:

In-kind contribution	Location of the ILO's controlled entity/external offices	Provided by
Right to use campus and facilities	ITC, Turin	City of Turin, Italy
Right to use land	Islamabad	Government of Pakistan
	Brasilia	Government of Brazil
	Dar es Salaam	Government of the United Republic of Tanzania
Right to use office space and other facilities	Budapest	Government of Hungary
	Beirut	Government of Lebanon
	Yaoundé	Government of Cameroon
	Kuwait City	Government of Kuwait
	Ankara	Government of Turkey
	Abuja	Government of Nigeria
	Lisbon	Government of Portugal
	Madrid	Government of Spain
	Rome	Government of Italy
	Colombo	Government of Sri Lanka
	CINTERFOR, Montevideo	Government of Uruguay

Note 29 – Segment reporting

172. Segment reporting is presented in a format that represents the categories in which the ILO regular budget is appropriated by the ILC. The segments include:

- ❑ Policy-making organs – the ILC, Governing Body, major Regional Meetings, Legal Services and the Official Meetings, Documentation and Relations Department.
- ❑ Policy outcomes – the development programmes, regional and country offices, cross-cutting programmes and ITC and CINTERFOR and support services such as Information Technology and internal services.
- ❑ Management Services – Director-General's Office, Human Resources Development, Financial Management, Strategic Programming and Management and Oversight.
- ❑ Other – such as retiree health-care costs, contributions to UN system entities and extraordinary items.
- ❑ Unallocated (not distributed) – Compensation Fund, Terminal Benefits Fund, SHIF, change in provision for ASHI, investment revenue and expense, depreciation of property and equipment, amortization of intangible assets and the ILO contribution to the Administrative Tribunal.
- ❑ Eliminations – inter-segment transfers are eliminated including contributions made by each segment to the ILO, SHIF in accordance with the regulations of the Fund; ASHI charge for staff of development cooperation projects; contributions to the Terminal Benefits Fund (at 3.5 per cent of basis salary for the regular budget expatriate staff. 6.0 per cent for expatriate staff of the ITC and extra-budgetary-funded activities, and 7.5 per cent for ITC General Service staff); and contributions to the Compensation Fund covering premiums for accident insurance and short-term staff insurance.

173. The assets and liabilities of the ILO are owned by, and are the responsibility of, the entire Organization and are not assets and liabilities of the individual segments. The total assets and liabilities are therefore presented in the consolidated segment.



International Labour Organization

Consolidated statement of financial performance by segment for the year ended 31 December 2016 (US\$ millions)

	Policy-making organs		Policy outcomes		Management services		Other		Unallocated		Eliminations		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Assessed contributions from member States	26.1	39.5	302.3	293.1	30.2	29.7	24.3	24.4	–	–	–	–	382.9	386.7
Voluntary contributions	–	0.1	219.0	259.1	1.6	1.4	–	–	–	–	–	–	220.6	260.6
ITC training services	–	–	23.7	26.3	–	–	–	–	–	–	(11.1)	(12.2)	12.6	14.1
Programme support income	0.3	0.3	13.7	21.6	5.7	1.6	–	–	–	–	(19.7)	(23.5)	–	–
Staff/retiree employee benefit contributions	–	–	–	–	–	–	–	–	20.0	20.3	–	–	20.0	20.3
Sales and royalties	–	1.1	7.8	6.4	0.6	0.7	–	–	3.1	3.0	(1.2)	(1.2)	10.3	10.0
Gain on sale of investment property	–	–	–	–	–	–	–	–	0.1	6.1	–	–	0.1	6.1
Investment income	–	–	–	–	–	–	–	–	5.9	1.7	–	–	5.9	1.7
Contribution inter-segment	–	–	5.3	5.3	–	0.4	3.7	–	68.6	52.3	(77.6)	(58.0)	–	–
Other income	–	–	0.8	1.1	–	–	–	–	1.8	0.4	–	0.1	–	1.6
Total revenue	26.4	41.0	572.6	612.9	38.1	33.8	28.0	24.4	99.5	83.8	(109.6)	(94.8)	655.0	701.1



	Policy-making organs		Policy outcomes		Management services		Other		Unallocated		Eliminations		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Salaries, employee benefits and other personnel costs	21.5	32.2	327.8	328.3	32.7	32.3	2.5	2.6	39.8	37.1	(17.8)	(18.0)	406.5	414.5
Travel	1.2	1.3	23.9	27.6	1.0	1.1	–	0.6	0.7	0.7	(0.3)	(0.1)	26.5	31.2
Subcontracts	0.7	1.3	87.1	123.1	3.2	4.7	0.6	1.4	(0.6)	(1.0)	(1.5)	(1.8)	89.5	127.7
General operating expenses	1.0	2.0	40.7	42.4	0.4	0.5	–	0.4	0.5	0.5	(1.5)	(1.4)	41.1	44.4
Supplies materials and small equipment	–	0.3	7.9	12.8	0.1	0.1	–	0.1	–	(0.1)	–	–	8.0	13.2
Depreciation and amortization	–	–	–	–	–	–	–	–	4.9	4.3	–	–	4.9	4.3
Seminars, workshops and other training	–	–	45.1	58.1	0.5	0.1	–	–	–	–	(6.5)	(8.4)	39.1	49.8
Staff development	0.1	0.7	2.3	4.9	1.7	0.5	–	–	–	–	(0.7)	(0.9)	3.4	5.2
Health benefits	–	–	–	–	–	–	–	–	43.8	41.5	–	–	43.8	41.5
Contributions and grants in aid	–	0.1	12.1	16.3	–	0.5	55.0	33.4	0.3	0.2	(61.2)	(40.3)	6.2	10.2
Programme support cost	–	–	19.9	23.8	0.1	0.1	–	–	0.1	0.1	(20.1)	(24.0)	–	–
Change in fair value of investment property	–	–	–	–	–	–	–	–	–	8.4	–	–	–	8.4
Finance expenses	–	–	–	–	–	–	–	–	2.4	2.3	–	–	2.4	2.3
Other expenses	–	–	0.2	0.7	–	–	0.1	0.8	3.2	3.6	–	–	3.5	5.1
Total expenses	24.5	37.9	567.0	638.0	39.7	39.9	58.2	39.3	95.1	97.6	(109.6)	(94.9)	674.9	757.8
Foreign exchange gains/(losses)	–	–	–	–	–	–	–	–	(1.9)	12.5	–	–	(1.9)	12.5
Net result	1.9	3.1	5.6	(25.1)	(1.6)	(6.1)	(30.2)	(14.9)	2.5	(1.3)	–	0.1	(21.8)	(44.2)



Note 30 – Assessed contributions – Summary

Assessed contributions of member States and amounts due by States for prior periods of membership in the ILO
Summary for the year ended 31 December 2016 (in CHF)

Details	Balance due as at 1.1.2016 ⁽¹⁾	Assessed Contributions 2016	Total amounts due	Amount received or credited ⁽²⁾ 31.12.2016	Balance due as at 31.12.2016
A. Assessed contributions for 2016:					
2016 – Assessed with the budget ⁽³⁾		378 769 384	378 769 384	339 549 951	39 219 433
Total assessed contributions for 2016		378 769 384	378 769 384	339 549 951	39 219 433
B. Assessed contributions for previous financial periods due from member States	104 843 529		104 843 529	58 991 379	45 852 150
C. Amounts due by States for prior periods of membership in the ILO	6 615 689		6 615 689	-	6 615 689
Total assessed contributions and other amounts due for previous financial periods	111 459 218	-	111 459 218	58 991 379	52 467 839
Total 2016	111 459 218	378 769 384	490 228 602	398 541 330	91 687 272
Total 2014–15	101 044 569	761 197 000	862 241 569	750 782 351	111 459 218

Balance in US dollars at the United Nations rate of exchange for 31 December 2016 (1.025 Swiss francs to the dollar)

Less: prepayments of financial arrangements

Assessed contributions receivable in US dollars

⁽¹⁾ Excludes assessed contributions for 2016.

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

The Incentive Scheme for 2014

50 per cent Net Premium for prior years

Surplus for prior years

Total credits

in Swiss francs

81 485

68 999

29 447

179 931

89 450 997

(1 840 754)

87 610 243

⁽³⁾ Includes Cook Island's 2015 and 2016 contributions of 2,117 Swiss francs and 3,788 Swiss francs respectively, and Tonga's 2016 contribution of 3,229 Swiss francs, assessed, following their admission to membership of the ILO, after adoption of the income budget by the International Labour Conference for the relevant period. Cook Islands and Tonga joined the ILO on 12 June 2015 and 24 February 2016 respectively.



Note 31 – Assessed contributions – Detailed information

Assessed contributions of member States and amounts due by States for prior periods of membership in the ILO

Details for the year ended 31 December 2016 (in CHF)

States	2016 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2016
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2016	Balance due as at 01.01.2016	Amount received in 2016	Balance due as at 31.12.2016		
	%	Amount							
Afghanistan	0.005	18 938	124	18 814	38 060	36 952	1 108	2015	19 922
Albania	0.010	37 876	37 876	-	-	-	-		-
Algeria	0.137	518 901	518 901	-	-	-	-		-
Angola	0.010	37 876	17	37 859	39 208	-	39 208	2014-15	77 067
Antigua and Barbuda (2)	0.002	7 575	2	7 573	126 711	-	126 711	2000-15	134 284
Argentina	0.432	1 636 244	1 121 686	514 558	1 552 185	1 552 185	-		514 558
Armenia (4)	0.007	26 513	26 513	-	1 167 666	96 000	1 071 666	1994-2004	1 071 666
Australia	2.075	7 859 275	7 859 275	-	-	-	-		-
Austria	0.798	3 022 507	3 022 507	-	-	-	-		-
Azerbaijan (4)	0.040	151 504	151 504	-	2 654 390	247 743	2 406 647	1994-2005	2 406 647
Bahamas	0.017	64 389	64 389	-	-	-	-		-
Bahrain	0.039	147 716	147 716	-	-	-	-		-
Bangladesh	0.010	37 876	37 812	64	30	30	-		64
Barbados	0.008	30 301	30 301	-	-	-	-		-
Belarus (4)	0.056	212 106	212 106	-	315 495	157 746	157 749	1997	157 749
Belgium	0.999	3 783 815	3 783 815	-	-	-	-		-
Belize	0.001	3 788	2	3 786	-	-	-		3 786
Benin	0.003	11 363	95	11 268	25 015	24 850	165	2015	11 433
Bolivia, Plurinational State of	0.009	34 088	4	34 084	34 235	34 235	-		34 084
Bosnia and Herzegovina	0.017	64 389	64 389	-	-	-	-		-
Botswana	0.017	64 389	64 389	-	-	-	-		-
Brazil	2.936	11 120 401	2 691	11 117 710	22 337 406	3 984 981	18 352 425	2014-15	29 470 135
Brunei Darussalam	0.026	98 478	38	98 440	-	-	-		98 440
Bulgaria	0.047	178 017	178 017	-	-	-	-		-



States	2016 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2016
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2016	Balance due as at 01.01.2016	Amount received in 2016	Balance due as at 31.12.2016		
	%	Amount							
Burkina Faso	0.003	11 363	2	11 361	20 264	-	20 264	2014-15	31 625
Burundi (2)	0.001	3 788	15	3 773	17 690	-	17 690	2011-15	21 463
Cabo Verde	0.001	3 788	49	3 739	1 904	-	1 904	2015	5 643
Cambodia	0.004	15 150	15 150	-	-	-	-		-
Cameroon	0.012	45 451	11 147	34 304	-	-	-		34 304
Canada	2.986	11 309 781	11 309 781	-	-	-	-		-
Central African Republic (4)	0.001	3 788	3 788	-	65 749	8 405	57 344	1997-2000+2004-07	57 344
Chad	0.002	7 575	75	7 500	-	-	-		7 500
Chile	0.334	1 265 059	915 228	349 831	-	-	-		349 831
China	5.151	19 509 940	19 509 940	-	-	-	-		-
Colombia	0.259	980 989	31	980 958	1 133 135	219 393	913 742	2015	1 894 700
Comoros (2)	0.001	3 788	-	3 788	460 058	-	460 058	1985-2015	463 846
Congo	0.005	18 938	39	18 899	-	-	-		18 899
Cook Islands (6)	0.001	5 905	5 905	-	-	-	-		-
Costa Rica	0.038	143 929	143 929	-	-	-	-		-
Côte d'Ivoire	0.011	41 664	33 483	8 181	4 126	4 126	-		8 181
Croatia	0.126	477 238	477 238	-	-	-	-		-
Cuba	0.069	261 345	261 345	-	-	-	-		-
Cyprus	0.047	178 017	178 017	-	-	-	-		-
Czech Republic	0.386	1 462 014	1 462 014	-	-	-	-		-
Democratic Republic of the Congo	0.003	11 363	146	11 217	22 797	-	22 797	2014-15	34 014
Denmark	0.675	2 556 632	2 556 632	-	-	-	-		-
Djibouti (2)	0.001	3 788	2	3 786	105 758	3 728	102 030	1996+1998-2015	105 816
Dominica (2)	0.001	3 788	2	3 786	37 495	-	37 495	2006-2015	41 281
Dominican Republic	0.045	170 442	170 442	-	-	-	-		-
Ecuador	0.044	166 654	10 431	156 223	-	-	-		156 223
Egypt	0.134	507 539	263	507 276	-	-	-		507 276
El Salvador	0.016	60 602	910	59 692	134 710	40 021	94 689	2014-15	154 381
Equatorial Guinea (2)	0.010	37 876	2	37 874	133 787	-	133 787	2012-15	171 661
Eritrea	0.001	3 788	3 788	-	-	-	-		-
Estonia	0.040	151 504	151 504	-	-	-	-		-
Ethiopia	0.010	37 876	15	37 861	38 015	38 015	-		37 861



States	2016 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2016
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2016	Balance due as at 01.01.2016	Amount received in 2016	Balance due as at 31.12.2016		
	%	Amount							
Fiji	0.003	11 363	11 363	-	-	-	-		-
Finland	0.519	1 965 766	1 965 766	-	-	-	-		-
France	5.596	21 195 424	21 195 424	-	-	-	-		-
Gabon	0.020	75 752	7	75 745	135 788	-	135 788	2014-15	211 533
Gambia (2)	0.001	3 788	-	3 788	60 191	-	60 191	1999-2015	63 979
Georgia (4)	0.007	26 513	26 513	-	1 904 915	599 356	1 305 559	1995-2004	1 305 559
Germany	7.145	27 062 420	27 062 420	-	-	-	-		-
Ghana	0.014	53 026	11	53 015	11 078	-	11 078	2015	64 093
Greece	0.638	2 416 490	2 397 979	18 511	661 251	661 251	-		18 511
Grenada (2)	0.001	3 788	2	3 786	22 476	3 766	18 710	2010-15	22 496
Guatemala	0.027	102 265	102 265	-	-	-	-		-
Guinea	0.001	3 788	5	3 783	3 806	-	3 806	2015	7 589
Guinea-Bissau (2)	0.001	3 788	2	3 786	271 815	-	271 815	1992-2001+2003-15	275 601
Guyana	0.001	3 788	3 788	-	-	-	-		-
Haiti	0.003	11 363	11 363	-	22 695	22 695	-		-
Honduras	0.008	30 301	30 301	-	5 247	5 247	-		-
Hungary	0.266	1 007 502	1 007 502	-	-	-	-		-
Iceland	0.027	102 265	102 240	25	-	-	-		25
India	0.666	2 522 543	2 522 543	-	-	-	-		-
Indonesia	0.346	1 310 510	1 310 510	-	-	-	-		-
Iran, Islamic Republic of	0.356	1 348 386	9 767	1 338 619	1 574 941	1 328 801	246 140	2015	1 584 759
Iraq (4)	0.068	257 557	257 557	-	3 657 239	304 770	3 352 469	1995-2007	3 352 469
Ireland	0.418	1 583 218	1 583 193	25	-	-	-		25
Israel	0.396	1 499 891	1 400 612	99 279	-	-	-		99 279
Italy	4.450	16 854 831	16 854 831	-	-	-	-		-
Jamaica	0.011	41 664	41 477	187	-	-	-		187
Japan	10.839	41 053 823	41 053 823	-	-	-	-		-
Jordan	0.022	83 327	83 327	-	-	-	-		-
Kazakhstan (4)	0.121	458 300	458 300	-	1 286 682	257 335	1 029 347	1997-99	1 029 347
Kenya	0.013	49 239	4	49 235	5 911	-	5 911	2015	55 146
Kiribati	0.001	3 788	47	3 741	7 717	7 444	273	2015	4 014
Korea, Republic of	1.995	7 556 267	7 556 267	-	-	-	-		-



States	2016 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2016
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2016	Balance due as at 01.01.2016	Amount received in 2016	Balance due as at 31.12.2016		
	%	Amount							
Kuwait	0.273	1 034 015	1 034 015	-	1 037 509	1 037 509	-		-
Kyrgyzstan (2)	0.002	7 575	-	7 575	1 166 441	7 693	1 158 748	1992-2015	1 166 323
Lao People's Democratic Republic	0.002	7 575	7 575	-	-	-	-		-
Latvia	0.047	178 017	178 017	-	-	-	-		-
Lebanon	0.042	159 079	1 562	157 517	389 544	364 385	25 159	2015	182 676
Lesotho	0.001	3 788	3 788	-	-	-	-		-
Liberia (2)	0.001	3 788	2	3 786	91 035	-	91 035	1996-99+2014-15	94 821
Libya	0.142	537 839	62	537 777	885 799	-	885 799	2014-15	1 423 576
Lithuania	0.073	276 495	276 495	-	-	-	-		-
Luxembourg	0.081	306 796	306 796	-	-	-	-		-
Madagascar	0.003	11 363	118	11 245	23 095	20 628	2 467	2015	13 712
Malawi	0.002	7 575	49	7 526	14 829	-	14 829	2014-15	22 355
Malaysia	0.281	1 064 316	1 064 316	-	-	-	-		-
Maldives, Republic of	0.001	3 788	1	3 787	3 806	3 806	-		3 787
Mali	0.004	15 150	14 715	435	5	5	-		435
Malta	0.016	60 602	60 591	11	5	5	-		11
Marshall Islands	0.001	3 788	3 788	-	-	-	-		-
Mauritania	0.002	7 575	7 575	-	9 376	9 376	-		-
Mauritius	0.013	49 239	49 239	-	-	-	-		-
Mexico	1.843	6 980 551	4 800	6 975 751	7 014 171	3 881 000	3 133 171	2015	10 108 922
Moldova, Republic of (4)	0.003	11 363	11 363	-	1 364 670	136 467	1 228 203	1995-2004	1 228 203
Mongolia	0.003	11 363	11 363	-	-	-	-		-
Montenegro	0.005	18 938	18 938	-	-	-	-		-
Morocco	0.062	234 831	234 831	-	25 300	25 300	-		-
Mozambique	0.003	11 363	11 363	-	-	-	-		-
Myanmar	0.010	37 876	37 876	-	-	-	-		-
Namibia	0.010	37 876	37 876	-	-	-	-		-
Nepal	0.006	22 726	22 726	-	-	-	-		-
Netherlands	1.655	6 268 482	6 268 482	-	-	-	-		-
New Zealand	0.253	958 263	958 263	-	-	-	-		-
Nicaragua	0.003	11 363	11 363	-	-	-	-		-
Niger	0.002	7 575	5	7 570	-	-	-		7 570

States	2016 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2016
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2016	Balance due as at 01.01.2016	Amount received in 2016	Balance due as at 31.12.2016		
	%	Amount							
Nigeria	0.090	340 884	3 096	337 788	19 168	-	19 168	2015	356 956
Norway	0.852	3 227 037	3 227 037	-	-	-	-		-
Oman	0.102	386 335	386 289	46	53	53	-		46
Pakistan	0.085	321 946	321 946	-	50	50	-		-
Palau	0.001	3 788	1	3 787	4 280	-	4 280	2014-15	8 067
Panama	0.026	98 478	98 478	-	-	-	-		-
Papua New Guinea	0.004	15 150	95	15 055	31	-	31	2015	15 086
Paraguay (4)	0.010	37 876	-	37 876	550 456	80 884	469 572	1989-90+1998-2003+2011-	507 448
Peru	0.117	443 149	376 602	66 547	135 770	135 770	-		66 547
Philippines	0.154	583 291	583 291	-	-	-	-		-
Poland	0.922	3 492 169	3 492 169	-	-	-	-		-
Portugal	0.474	1 795 324	1 795 324	-	-	-	-		-
Qatar	0.209	791 609	791 609	-	-	-	-		-
Romania	0.226	855 998	855 998	-	-	-	-		-
Russian Federation	2.439	9 237 962	9 237 962	-	-	-	-		-
Rwanda	0.002	7 575	2	7 573	18 750	15 174	3 576	2015	11 149
Saint Kitts and Nevis	0.001	3 788	-	3 788	7 503	-	7 503	2014-15	11 291
Saint Lucia	0.001	3 788	3 788	-	-	-	-		-
Saint Vincent and the Grenadines	0.001	3 788	-	3 788	14 827	14 625	202	2015	3 990
Samoa	0.001	3 788	3 768	20	55	55	-		20
San Marino	0.003	11 363	11 363	-	-	-	-		-
Sao Tome and Principe (2)	0.001	3 788	2	3 786	197 126	-	197 126	1995-2015	200 912
Saudi Arabia	0.865	3 276 276	3 276 276	-	-	-	-		-
Senegal	0.006	22 726	260	22 466	-	-	-		22 466
Serbia	0.040	151 504	151 504	-	-	-	-		-
Seychelles	0.001	3 788	4	3 784	-	-	-		3 784
Sierra Leone (2)	0.001	3 788	-	3 788	425 077	-	425 077	1986-2015	428 865
Singapore	0.384	1 454 439	1 454 439	-	-	-	-		-
Slovakia	0.171	647 680	647 680	-	-	-	-		-
Slovenia	0.100	378 760	378 760	-	-	-	-		-
Solomon Islands (2)	0.001	3 788	2	3 786	33 903	-	33 903	2004-2007+2010-15	37 689
Somalia (2)	0.001	3 788	-	3 788	404 364	-	404 364	1988-2015	408 152



States	2016 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2016
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2016	Balance due as at 01.01.2016	Amount received in 2016	Balance due as at 31.12.2016		
	%	Amount							
South Africa	0.372	1 408 988	1 408 988	-	-	-	-		-
South Sudan (2)	0.004	15 150	-	15 150	48 651	-	48 651	2012-15	63 801
Spain	2.975	11 268 117	11 268 117	-	-	-	-		-
Sri Lanka	0.025	94 690	94 690	-	-	-	-		-
Sudan	0.010	37 876	468	37 408	103 879	74 291	29 588	2015	66 996
Suriname	0.004	15 150	2	15 148	30 357	-	30 357	2013-2015	45 505
Swaziland	0.003	11 363	11 363	-	11 404	11 404	-		-
Sweden	0.961	3 639 886	3 639 886	-	-	-	-		-
Switzerland	1.048	3 969 407	3 969 407	-	-	-	-		-
Syrian Arab Republic	0.036	136 354	136 354	-	-	-	-		-
Tajikistan (2)	0.003	11 363	-	11 363	542 387	32 500	509 887	1994-2015	521 250
Tanzania, United Republic of	0.009	34 088	2	34 086	57 333	-	57 333	2014-15	91 419
Thailand	0.239	905 237	905 237	-	-	-	-		-
The former Yugoslav Republic of Macedonia	0.008	30 301	30 301	-	30 448	30 448	-		-
Timor-Leste	0.002	7 575	2	7 573	3 810	-	3 810	2015	11 383
Togo	0.001	3 788	3 788	-	-	-	-		-
Tonga (6)	0.001	3 229	-	3 229	-	-	-		3 229
Trinidad and Tobago	0.044	166 654	166 654	-	-	-	-		-
Tunisia	0.036	136 354	136 354	-	-	-	-		-
Turkey	1.329	5 033 724	5 033 724	-	-	-	-		-
Turkmenistan	0.019	71 964	71 964	-	-	-	-		-
Tuvalu	0.001	3 788	3 788	-	7 622	7 622	-		-
Uganda	0.006	22 726	2	22 724	63 310	21 252	42 058	2014-15	64 782
Ukraine (4)	0.099	374 973	374 973	-	1 898 831	316 472	1 582 359	1998-99+2009	1 582 359
United Arab Emirates	0.595	2 253 623	2 253 623	-	-	-	-		-
United Kingdom	5.182	19 627 356	19 627 356	-	-	-	-		-
United States	22.000	83 327 255	70 865 957	12 461 298	41 850 835	41 850 835	-		12 461 298
Uruguay	0.052	196 955	49	196 906	-	-	-		196 906
Uzbekistan (4)	0.015	56 814	56 814	-	1 423 900	74 900	1 349 000	1997-2014	1 349 000
Vanuatu (2)	0.001	3 788	-	3 788	19 549	-	19 549	2010-15	23 337
Venezuela, Bolivarian Republic of	0.627	2 374 827	587	2 374 240	4 716 528	1 199 795	3 516 733	2014-15	5 890 973
Viet Nam	0.042	159 079	159 079	-	-	-	-		-



States	2016 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2016
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2016	Balance due as at 01.01.2016	Amount received in 2016	Balance due as at 31.12.2016		
	%	Amount							
Yemen	0.010	37 876	20	37 856	59 567	-	59 567	2014-15	97 423
Zambia	0.006	22 726	8	22 718	40 257	-	40 257	2014-15	62 975
Zimbabwe	0.002	7 575	5	7 570	222	-	222	2015	7 792
Total Member States	100.002	378 769 384	339 549 951	39 219 433	104 843 529	58 991 379	45 852 150		85 071 583
Amounts due by States for prior periods of membership in the ILO									
Paraguay (3)	-	-	-	-	245 066	-	245 066	1937	245 066
Total - Amounts due by States for prior periods of membership in the ILO	-	-	-	-	245 066	-	245 066		245 066
Amounts due by States when they ceased to be members of the ILO									
Former Socialist Fed. Rep. of Yugoslavia (5)	-	-	-	-	6 370 623	-	6 370 623	1989-01	6 370 623
Total - Amounts due by States when they ceased to be members of the ILO	-	-	-	-	6 370 623	-	6 370 623		6 370 623
TOTAL	100.002 ⁽⁶⁾	378 769 384	339 549 951	39 219 433	111 459 218	58 991 379	52 467 839		91 687 272

⁽¹⁾ Assessed contributions for 2016. Represents contributions assessed with the approval of the 2016–17 budget.

⁽²⁾ **Member States which, at 31 December 2016, have lost the right to vote under the provisions of 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 (2014–15). 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 Organisation.

⁽³⁾ **Financial arrangement: Paraguay (prior membership of the ILO).** Paraguay owes 245,066 Swiss francs in respect of contributions to the ILO and other League of Nations organizations for the period prior to 1939. The 45th (1961) Session of the ILC decided that these arrears should be cancelled, effective on the date that payment is made of all Paraguay's arrears of contributions due since the date when it rejoined the Organization.

⁽⁴⁾ **Other financial arrangements.** Member States listed in the following table have financial arrangements for the settlement of arrears of contributions.

Member State	Session of Conference at which arrangement was approved
Armenia	93rd (2005)
Azerbaijan	95th (2006)
Belarus	86th (1998)
Central African Republic	97th (2008)
Georgia	93rd (2005)
Iraq	97th (2008)
Kazakhstan	88th (2000)
Moldova, Republic of	93rd (2005)
Paraguay	102nd (2013)
Ukraine	99th (2010)
Uzbekistan	104th (2015)

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

⁽⁶⁾ Includes Cook Islands' 2015 and 2016 contributions of 2,117 Swiss francs and 3,788 Swiss francs, respectively, and Tonga's 2016 contribution of 3,229 Swiss francs, assessed following their admission to membership of the ILO after adoption of the income budget by the International Labour Conference for the relevant period. Cook Islands and Tonga joined the ILO on 12 June 2015 and 24 February 2016, respectively.



Note 32 – Comparative figures

174. In line with the recommendations of the UN Task Force on Accounting Standards, the ILO has presented separately in the bottom of the Statement II the net amount of foreign exchange gains or losses.



5. Report of the External Auditor to the Governing Body

On the financial operations of the International Labour Organization

for the year ended 31 December 2016





Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

To the Governing Body of the International Labour Organization:

We have the honour to transmit the Report of the External Auditor on the Financial Operations of the International Labour Organization for the financial year 2016. This is our first long-form report under our mandate as the External Auditor for the 75th and 76th financial periods for a period of four years (2016-2019), granted by the Governing Body during its 323rd Session in March 2015.

The report contains the results of our audit of the 2016 financial statements, which were audited in accordance with the International Standards on Auditing. It also contains our observations and recommendations on the review of the corporate governance mechanisms and the results-based management of the Organization. Value-adding recommendations were communicated and discussed with Management to further enhance efficient and effective management of the Organization. We will be pleased to present these points during the Governing Body meeting on 5 June 2017.

We wish to express our appreciation for the cooperation and assistance extended to our auditors by the Director General and his staff, and for the support and interest in our work as External Auditor by the Organization's Governing Body and Conference.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Michael G. Aguinaldo".

Michael G. Aguinaldo
Chairperson, Commission on Audit, Republic of the Philippines
External Auditor

Quezon City, Philippines
18 April 2017



**Republic of the Philippines
COMMISSION ON AUDIT
Quezon City**



**Report of the External Auditor
to the Governing Body
on the Financial Operations of the
International Labour Organization**

**For the Financial Year Ended
31 December 2016**



**REPORT OF THE EXTERNAL AUDITOR
TO THE GOVERNING BODY
ON THE FINANCIAL OPERATIONS OF
THE INTERNATIONAL LABOUR ORGANIZATION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

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List of abbreviations

ACT/EMP	Bureau of Employers' Activities
ASHI	After-Service Health Insurance
BoC	Beginning of Cycle
CO	Country Office
COA	Commission on Audit of the Republic of the Philippines
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPOs	Country Programme Outcomes
CSR	Coverage of Spouse Rate
CY	Calendar Year
DC	Development Cooperation
DWCP	Decent Work Country Programme
DWT	Decent Work Team
EoC	End of Cycle
ERM	Enterprise Risk Management
EVAL	Evaluation Unit
F&E	Furniture and Equipment
GB	Governing Body
GPs	Global Products
HIIS	Health Insurance Information System
HQ	Headquarters
IAO	Internal Audit and Oversight
IGDS	Internal Governance Document System
ILO	International Labour Organization
INFOTEC	Information and Technology Management Department
INI	Physical Inventory Management System
INTOSAI	International Organization of Supreme Audit Institution
IOAC	Independent Oversight Advisory Committee
IPSAS	International Public Sector Accounting Standards
IRIS	Integrated Resource Information System
ISA	International Standards on Auditing
ITC	International Training Centre
JIU	Joint Inspection Unit
JUR	Legal Advisor
MTR	Medical Trend Rate
OBW	Outcome-Based Workplan
OCT	Outcome Coordinating Team
OFA	Oracle Fixed Asset Module
OGA	Oracle Grants Accounting
PR	Participation Rate
P&B	Programme and Budget
PARDEV	Partnerships and Field Support Department
PMF	Performance Management Framework
PROGRAM	Strategic Programming and Management Department



RB	Regular Budget
RBM	Results-based Management
RBSA	Regular Budget Supplementary Account
RO	Regional Office
ROAP	Regional Office for Asia and the Pacific
ROECA/EUROPE	Regional Office for Europe and Central Asia
SHIF	Staff Health Insurance Fund
SM/M	Strategic Management Module
SM/IM	Strategic Management Implementation Module
SM/IP	Strategic Management Implementation Planning Module
SMART	Specific, Measurable, Attainable, Realistic, Time-Bound
SOs	Strategic Objectives
SP	Strategic Plan
SPF	Strategic Policy Framework
TR/CF	Treasurer and Financial Comptroller
UN	United Nations
UNDP	United Nations Development Programme
UWP	Unit Workplan
XBTC	Extra Budgetary Technical Cooperation



EXECUTIVE SUMMARY

Introduction

This Report of the External Auditor on the audit of the financial statements and operations of the **International Labour Organization (ILO)** is issued pursuant to Paragraph 6 of the Appendix to the Financial Regulations of the ILO, and is transmitted to the Governing Body.

This is the first long-form report to the Governing Body by the Chairperson of the Commission on Audit of the Republic of the Philippines, under its mandate as the External Auditor for the 75th and 76th financial periods to commence on 1 April 2016 for a period of four years (2016-2019), granted by the Governing Body during its 323rd Session in March 2015.

The overall objective of the audit is to provide independent assurance to Member States, help enhance transparency and accountability in the Organization, and support the objectives of the Organization's work through the external audit process. We have detailed in this Report our observations on financial and governance matters and we provided recommendations to further improve the efficiency and effectiveness of management operations, and add value to ILO's governance.

Overall result of the audit

In line with our mandate, we audited the financial statements of ILO in accordance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board. Our audit resulted in the issuance of an unmodified audit opinion on the Organization's financial statements for the financial year ended 31 December 2016. We concluded that the financial statements present fairly, in all material respects, the financial position of ILO for the financial year ended 31 December 2016, and its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with the International Public Sector Accounting Standards (IPSAS).

We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of the ILO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the ILO.

In addition to the audit of financial statements, we also conducted audit on the Regional Office for Asia and the Pacific, the Regional Office for Europe, the Country Office Bangkok, and the Country Office Philippines, and the Staff Health Insurance Fund (SHIF). Likewise, we conducted an audit on the financial statements and operations of the International Training Centre in Turin. For our value-added work, we reviewed the corporate governance mechanisms including results-based, and risk management. The results of the audit were communicated to Management and are incorporated in this Report.



Key audit findings

On Accountability and Ethics

- a) ILO's Accountability Framework still lacks reference to certain mechanisms such as terms of reference, risk registers, reports, performance evaluation system, among others, to better exact operational transparency and accountability. In support thereto, the Organization still needs to institute policies on Vendors Complaints and Grievances and Vendor Sanctioning Policy; and, expand its Asset Accountability to strengthen the Framework.
- b) ILO's Whistle-blower Policy, Principles of Conduct of Staff, Conflicts of Interest Policy and Anti-fraud Policy still have gaps in their policy design and necessitate enhancements to warrant the promotion of stronger culture of integrity and high ethical standards and values.

On Internal Control

- c) ILO does not have a formal and concrete Internal Control Framework that will complement its other governance mechanisms on Accountability and Risk Management.

On Risk Management

- d) ILO still has to make progress on its risk communication and aggregation process; and, on the clarity of its risk identification guidance.

On Results-Based Management

- e) ILO's implementation of the Results-based Management (RBM) principles still has to manifest better results accountabilities and orientation across the areas of Strategic Objectives measurement; adoption of better tools and review mechanisms; use of the Specific, Measurable, Attainable, Realistic, Time-Bound (SMART) criteria; and, the development of a Programme Monitoring Framework for a transparent, reliable, uniform and evidence-based assessment of progress on the achievement of planned results.

On Review of Regional and Country Offices

- f) ILO's Regional and Country Offices level of management controls, particularly its monitoring and supervisory controls, needs to be enhanced to manage risks of operational inefficiencies and non-compliance with prescribed internal rules and guidance.

Summary of recommendations

We provided recommendations which are discussed in detail in this report. The main recommendations are as follows:

- a) **We recommended that ILO improve the Accountability Framework to include the accountability mechanism and tools and the development, institution and enhancement of peripheral accountability policies, inter alia, Vendor Complaints and Grievances, Vendor Sanctioning and Asset Accountability, respectively;**



- b) We recommended that ILO update the Whistle-blower Policy to include the two-step process of investigation, integrate in the Principles of Conduct for Staff the latest office governance directives on Ethics, include in the Conflicts of Interest Policy provisions relating to incompatible functions within the Office and incorporate in the Anti-Fraud Policy of 2009, an internal mechanism and clear modalities in terms of conducting fair and unbiased investigation on cases that may be committed by the Executive Head;
- c) We recommended that ILO reinforce its internal control arrangements through the crafting of a most appropriate internal control framework to ensure a more effective strategic management of its embedded controls, and align these controls more closely to the other existing governance mechanisms;
- d) We recommended that ILO consider in its 2017 planned enhancements of the ERM process the: a) formal process for risk communication and aggregation within 2017; b) improvement in the clarity of guidance on identification of inherent risks; and c) a more robust programme on risk management competency build-up amongst its staff;
- e) We recommended that ILO: a) craft the Strategic Objectives (SOs) in a change language to reflect specific, measurable and time-bound higher-level changes; b) enhance the tools and review mechanisms within the programme and project appraisal process in order to fully integrate the RBM principles in the identification of results; c) use SMART indicators to facilitate better measurability of and accountability for results and; d) develop a programme monitoring framework including the related tools that will enable a transparent, reliable, uniform and evidence-based assessment of progress on the achievement of planned results;
- f) We recommended that ILO enhance the level of management controls in its Regional and Country operations by further improving their monitoring and supervisory controls over critical processes to warrant the performance of the embedded controls as intended.

Implementation of external auditor's recommendations in prior years

We noted in our validation of implementation of prior year's audit recommendations that of the nine recommendations, three or 33 per cent has been implemented while six or 67 per cent are still in progress of implementation. The detailed analysis is presented in Annex A.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

1. The Commission on Audit (COA) is an independent audit body created by the Constitution of the Republic of the Philippines. The 117 years old Supreme Audit Institution is an active member of the International Organization of Supreme Audit Institution (INTOSAI) and the Panel of External Auditors of the United Nations. COA is extensively involved in setting accounting and auditing standards, building capacity and sharing knowledge. It has extensive experience in providing external audit services to international organizations for the past 35 years, 18 years of which as member of the United Nations Board of Auditors.



2. The Governing Body of the ILO during its 323rd Session in March 2015 appointed the Chairperson of the Commission on Audit of the Republic of the Philippines as External Auditor of the ILO for the 75th and 76th financial periods to commence 1 April 2016 for a period of four years (2016-2019). The ILO Financial Regulations Chapter IX elaborates on the terms of reference governing external audit. The regulations require that the External Auditor report to the International Labor Conference through the Governing Body on the audit of the annual financial statements and on other information that should be brought to its attention with regard to Article 36, paragraph 2, and in the additional terms of reference.

Scope and Objectives of audit

3. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements which consist of five statements: (a) Statement of Financial Position, (b) Statement of Financial Performance; (c) Statement of Changes in Net Assets/Equity; Statement of Cash Flows; and (e) Statement of Comparison of Actual Amounts and Budget. It also includes an assessment of ILO's compliance with Financial Regulations and legislative authority.

4. The audit was conducted primarily to enable us to form an opinion as to whether the financial statements presented fairly the financial position of the ILO as at 31 December 2016 and the results of its operations, cash flows, and comparison of actual amounts and budgets for the financial period, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the ILO Financial Regulations and legislative authority. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent we considered necessary to support our audit opinion.

5. We also carried out a review of ILO operations with regard to Article 36, paragraph 2 of the Financial Regulations which requires the External Auditor to make observations with respect to the efficiency of the financial procedures, accounting system, internal financial controls, and in general, the administration and management of Organization. We focused on areas of fundamental importance to the capability, effective management and reputation of ILO, in particular corporate governance mechanisms.

6. Overall, the audit intends to provide independent assurance to Member States, help increase transparency and accountability in the Organization, and support the objectives of the Organization's work through the external audit process.

Methodology and auditor's responsibilities

7. We conducted our audit in accordance with the ISA. These Standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The audit includes examining on test basis evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements.



8. The Risk-based audit approach was adopted in the audit of the financial statements. This approach requires the conduct of risk assessment of material misstatements at the financial statements and assertion levels based on an appropriate understanding of the entity and its environment including its internal controls.

9. The auditor's responsibility is to express an opinion on the financial statements based on an audit. The audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free of material misstatement including those caused by fraud or error.

10. During the financial year 2016, in addition to the audit of the financial statements, we also audited the corporate governance mechanisms, the SHIF at the Headquarters (HQ) and the International Training Centre (ITC); the Regional Office for Asia and the Pacific (ROAP); Regional Office for Europe and Central Asia (EUROPE); and the Country Office – Bangkok (Thailand, Cambodia and Lao People's Democratic) in Bangkok and the Country office - Philippines. In addition, we conducted an audit on the financial operations of the ITC in Turin.

11. We coordinated with the Internal Audit and Oversight (IAO) on the planned audit areas to avoid unnecessary duplication of efforts, and to determine the extent of reliance that can be placed on IAO work. We also collaborated with the Independent Oversight Advisory Committee (IOAC) to further enhance our audit work.

12. We continued to report audit results to ILO Management through audit observation memoranda and management letters containing detailed observations and recommendations. The practice provides a continuing dialogue with Management.

B. RESULTS OF AUDIT

13. This section of the report discusses our observations on financial and governance matters in line with Paragraph 2, Article 36 of the Financial Regulations which mandated the External Auditor to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the management and operations of the Organization. The ILO Management was afforded the opportunity to comment on our audit observations. Value-adding recommendations were communicated and discussed with Management to help enhance the efficient and effective management of the Organization.

1. FINANCIAL MATTERS

1.1 Audit of Financial Statements

14. We issued an unmodified opinion on the ILO's financial statements. As such, we concluded that the financial statements present fairly, in all material respects, the financial position of ILO for the financial year ended 31 December 2016, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with IPSAS as disclosed in Note 2 to the financial statements.



15. We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year. Further, we concluded that the transactions of ILO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been compliant with the Financial Regulations and legislative authority of ILO.

16. We appreciate the efforts taken by Management to address a number of recommendations issued in the course of our audit of the ILO 2016 financial statements in order to present fairly the balances of the affected accounts and improve the presentation and disclosures in compliance with IPSAS.

1.2 Provisions in the financial statements

17. We have reviewed the provisions for: contributions receivables under IPSAS 23; depreciation of PPE required in IPSAS 17; amortization of intangible assets in IPSAS 31; repatriation entitlements and ASHI liability under IPSAS 25; and contingent liabilities and unpaid health claims in IPSAS 19. We found the estimates to be fair and adequate, and the accounts fairly presented for the period ending 31 December 2016.

1.3 IPSAS Updates

18. The adoption of IPSAS has continued to bring major benefits to ILO, to include, among others: (a) the alignment of ILO accounting with best accounting practices through the application of credible, independent accounting standards on a full accruals basis; (b) improved internal control and transparency with respect to assets and liabilities; (c) more comprehensive information about costs that will better support results-based management; (d) more comprehensive information produced and disclosed under IPSAS facilitates improved management and stewardship of resources, the effectiveness of operational delivery and the achievement of results; and (e) improved consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard.

19. With the Organization's continued effort to adopt and improve IPSAS implementation, a manual of IPSAS Accounting Policies compiling all IPSAS accounting policies applicable to ILO is being prepared and will be published in 2017.

20. The challenge for ILO is to continue to monitor additions and amendments to the dynamic accounting standards and its impact on the internal policies required under the Financial Regulations and Rules. We will continue to monitor ILO's compliance with IPSAS.

2. GOVERNANCE MATTERS

21. Governance in broad sense can relate to structures embedded and processes delivered to exact accountability and control within an entity. Acting in the interest of its member states, the taxpayers and other stakeholders at all times, the delivery of the ILO's intended outcomes hinges primordially on how accountabilities are defined and established within the Organization, how risks and vulnerabilities are managed, how programmes are delivered and how governance mechanisms result in an effective internal control. What is brought forward then by these is the required confluence of these core and high-level elements that make up governance. These actions are



expected to enhance the Organization's relational value with its stakeholders that constantly need assurance that their moneys are spent to achieve the very purpose of its existence. Such is the basic value delivered by good governance practices.

2.1 Accountability and Ethics

22. Responsibility, authority and accountability are interrelated concepts presented in IGDS 137, the ILO Accountability Framework. We noted that the Framework brings these three components together as an essential part of the internal governance and oversight system of the Organization. Essentially, the ILO accountability framework comprises the full range of legal instruments, regulations and rules, policies, procedures and formally documented functions, responsibilities and authorities which, taken as a whole, establish the accountability of staff at all levels for their decisions, actions and omissions. On the other hand, we observed that the establishment of the Ethics Function was one of the measures introduced by ILO to foster a culture of integrity and high ethical values, with an objective to ensure support and compliance with ethical standards and to reinforce the possibility for all officials to report cases of disregard for these standards without fear of retaliation.

2.1.1 Accountability Mechanisms and Tools

23. Transparency, as one of the fundamental pillars of accountability will aid the key stakeholders in assessing the performance activities of the Organization to enable them to make sound decisions and judgments. In order to achieve transparency and accountability, mechanisms and tools should then be provided and established within the Organization's operation. These accountability mechanism and tools can be used to establish concrete and formal performance expectations, and to monitor, assess and report on performance.

24. For ILO, it is laudable that it established an accountability mechanism. IGDS Number 195 provides that *while the ILO accountability framework is based on the underlying principles that staff will self-inform, self-monitor and self-disclose, there are several mechanisms in place to support compliance and conformity*. We determined however, that the ILO's accountability mechanism only defines the function of the respective offices/functions and does not lay down specific tools which can be used to measure, report and assess performance. The framework appears to be wanting of reference to general tools such as: terms of reference, risk registers, reports, performance evaluation system, among others, within the framework which will be used as links between accountability as aspirations with reality.

25. We also observed that the ILO had integrated into its Accountability Framework the internal controls and mechanisms. Our evaluation however, revealed the absence of the concept of accountability mechanisms and tools that would facilitate performance evaluation. Evidence to support performance evaluation's practice and presence in decisional processes has to be fully demonstrated as key stakeholders must also see it come to life. Thus, the importance of a written and documented framework embodying the essential elements cannot be over-emphasized as upon it, the Organizations compliance with the pillar of transparency depends.

26. **We recommended and ILO agreed to improve the Accountability Framework to include the accountability mechanism and tools to more effectively facilitate the documentation and monitoring of accountability performance and achieve better transparency.**



27. **ILO Response.** The Office agrees that the Accountability Framework will be reviewed and updated to address recent developments in the Office viz., the promulgation of an Enterprise Risk Management Framework, the imminent introduction of a Statement of Internal Control, the planned promulgation of an Internal Control Framework and other organizational changes. The update will clarify the link between the various accountability mechanisms.

2.1.2 Procurement Accountability

28. To fulfil its mandate and achieve its vision and objectives, ILO procures a significant volume of goods and services annually. Based on the 2015 Statistical Report for United Nations (UN) Procurement, ILO's procurement for goods for the year 2015 amounted approximately to US\$14 million for goods and US\$356 million for services with a total value of US\$370 million. As a steward of public funds, the ILO procurement process must thus allow for transparent and fair competition among prospective providers. Aligned to this, the ILO procurement policy declares that *all individuals and entities directly or indirectly associated with the procurement function are responsible for protecting the integrity of the process and maintaining fairness and transparency in ILO's treatment of all prospective providers*. This policy extends to the effective management of its vendors.

29. Vendor management in the UN System occupies a major aspect in its procurement decisions. For this matter, United Nations Development Programme (UNDP) and the UN Procurement Division had included in their official website a page dedicated to vendor complaints or protest that include among others, complaint forms; manner of filing complaints or protest; and contact persons. These are manifestations of adherence by the agencies to the UN basic principles of procurement. In ILO, we were informed that there is no formal policy yet or a particular procedure on how such vendor grievances and complaints will be handled.

30. The management of vendor complaints needs to be founded on a well-established policy. As a process, managing vendor complaints has to be consistent, fair, impartial and timely as it lays down an escalated process for addressing procurement complaints. Although vendor complaints management cannot replace the dispute resolution process arising out of contracts, interventions must be in place to bridge vendor and vendee relationship to afford fair and efficient procurement process.

31. To further bolster accountability in the System particularly on vendor management, the UNDP launched a project in 2010 to support the System in the development of framework on vendor sanctions where policy frameworks are developed including the prescriptive contents and other tools needed by UN agencies to implement a common approach against suspect vendors. Aligning the Organization's current procurement policy to this, we have noted that it does not include vendor management provisions or does not contain a specific "Vendor Sanctioning Policy" although such is governed particularly by the contract stipulation where several remedies are provided. We also noted that neither the policy nor the contract contain particular instances when a vendor could be blacklisted as supplier of ILO.

32. We have subsequently compared the related mechanism currently in place in the Organization with the parameters on accountability set out by the Joint Inspection Unit (JIU). We determined that the lack of a Vendor Sanctioning Policy renders procurement controlling less effective and renders the response system currently in place less than desirable as the participants



in the accountability regime have unstable base upon which further actions on vendor sanctioning will depend. Disparities in ILO's organizational responses to vendors violations can thus set in which can have far-reaching impact in terms of message put across to the staff and vendors on the tolerance levels adopted. This may result in risks of inconsistent corrective and disciplinary actions in managing vendor behaviour.

33. **We recommended and ILO agreed to:**

- a. **institute a Vendor Complaints and Grievances Policy to enhance procurement management and to foster better accountability and relationship between the Organization and its vendors; and**
- b. **develop a Vendor Sanctioning Policy to support procurement activities and enhance procurement guidelines, all within the frame of control and accountability and meets the requirement of the United Nations current practice.**

34. **ILO Response.** The Office agrees with the recommendation and is finalizing a policy and procedure on vendor complaints, grievances and sanctions. The approach will be informed by other UN practices and be adapted to the ILO procurement environment.

2.1.3 Asset Accountability

35. Integral in the whole scheme of internal control within the Organization is its asset protection and preservation. We have noted that the current mechanism of the ILO relating to managing damage, theft or loss of assets (IGDS 281) contains scant provisions treating on loss, theft, unauthorized use of the Organization's asset and the corresponding liability. Specifically, we noted that the provisions on losses or theft of an asset merely describe the responsibilities of staff members for asset loss but the underlying circumstances for asset loss are not defined.

36. We also noted that the Organization's Committee on Accountability whose mandate includes making decisions on cases of fraud, presumption of fraud and attempted fraud as well as dishonest, negligence or disregard of established Office procedures or directives, has not been tapped to evaluate cases of loss of property due to negligence or misconduct. While the Committee is also mandated to *establish the facts of cases referred to it, determine the cause of, and responsibility for, any loss to the Office*, we observed from the Annual Reports of the Committee from 2009 to 2015 that there had been no cases of loss of property that were evaluated and investigated. This is inconsistent with the 260 items of inventory which were considered lost during the 2015 inventory taking and recorded in INI.

37. With the aforementioned circumstances, we underscore the necessity of establishing asset accountability procedures that will operate as intended, and manage related risks appropriately. In the current ILO environment, it is vital that Management will be able to demonstrate that resources are effectively managed, efficiently controlled and accountability are instilled especially for those assets that are often used, e.g., information technology and communication equipment, and furniture and fixture. Gleaned from the corresponding policy discussed, there is a need for more explicit procedures to be put in place.



38. **We recommended and the ILO agreed to expand the Asset Accountability Policy and incorporate the circumstances surrounding asset loss; guidelines for documentation for lost assets; levels of administrative and fiscal responsibility and the role of the Committee on Accountability in safeguarding the Organization's assets to enhance the quality of controlling of assets and related accountabilities.**

39. **ILO Response.** The Financial Rules of the Office establish the policies applicable to the management of ILO property. The Office takes note of the recommendation and will update its supplementary procedural document on the management of furniture and equipment (IGDS 281, Furniture and Equipment) to elaborate criteria defining major circumstances of asset loss, establishing clear guidelines for documentation in case of asset loss and defining the levels of administrative and fiscal responsibility for each type of circumstance defined as the cause of asset loss.

2.1.4 Ethics-Related Policies and Documentation

40. The behaviour of a public sector entity's staff that demonstrate integrity and strong commitment to ethical values and the rule of law ensures that accountability is effectively exercised. In ILO, one of the functions of its Ethics Officer, as set out in IGDS Number 76 is policy development or ensuring that the ILO policies, procedures and practices reinforce and promote the ethical standards. Hence, the Policies on Ethics in the Office, Whistle-blower protection, Conflicts of Interest, and other Ethics-related policies are expected to have been crafted and institutionalized. With these, it is essential that each Organization is able to demonstrate the appropriateness of its decisions based on these ethics mechanisms and enforce adherence to ethical values and the rule of law.

41. On the Whistle-blower Protection Policy, the JIU recommended, as far as the matter of investigation is concerned, that after the Ethics Officer had found a legitimate case of retaliation or threat of retaliation and in case of refusal by the internal oversight office, the matter should be referred to the JIU for the conduct of proper investigation, underscoring the importance of the conduct of investigation. Thus, the ideal two-step process in whistle-blower protection procedure, like that of the UN Secretariat Whistle-blower policy as set out in Secretary-General's Bulletin (ST/SGB/2005/21) requiring a preliminary review and a formal investigation before a disciplinary sanction can be imposed.

42. We emphasized that in the procedure, the investigation process is not provided for under the ILO policy upon which the possible sanctions for the retaliator can be properly founded. Basically, the burden of proof needed for a particular function was not provided for under the policy which is an essential element of due process that the policy seeks to observe at all stages of the whistle-blower protection procedure. We further pointed out that the main purpose of the conduct of preliminary review is the prima facie determination of whether there is a legitimate case of retaliation or threat of retaliation.

43. On matters relating to staff Code of Conduct, we noted that ILO has a codified and established Ethics Standards that will facilitate the efficient dissemination of Ethics-related information. We noted however, that the ILO's Principles of Conduct does not consolidate all of the necessary elements that should be embodied in the said document, such as those contained in the UN Ethics Office's Ethics Guide. The elements of Ethics function, i.e., Whistle-blower policy,



conflicts of interest policy, among others, are contained in different instruments through different IGDS's. It is vital that standardized ethics policies, procedures, and directives are consolidated in a manual to afford the consistent use and interpretation of such directives which even reduces management's concern about legal issues becoming legal problems.

44. In relation to the ILO's Conflicts of Interest Policy, we noted that IGDS 68 definition of Conflict of Interest only includes those interest of ILO employees outside the organization that are in conflict with the interest of the ILO as an Organization. It does not however, include incompatible duties of its employees discounting its own accountability principle on segregation of duties.

45. For its Anti-Fraud Policy, we noted that IGDS 69 was issued by ILO to address acts of fraud and dishonesty committed against the Organization by its officials, external collaborators, contractors and suppliers of goods and services. While the IAO has the mandate to conduct investigation, its independence on conducting one involving the Director-General will float as an issue considering that the Office including the Office of the Legal Counsel directly reports to the Director-General. Thus, authority to conduct the investigation may be bestowed to an external party or a separate entity to preserve fairness and equity. The lack of specific investigation guidelines in cases that may involve the Director-General will leave a lacuna as to who will be the appropriate office that should discharge the function once a case arises.

46. **We recommended and ILO agreed to:**

- a. **update the Whistle-blower Policy to include the two-step process of investigation, the amount of evidence needed in order to constitute disciplinary actions and the corresponding sanctions for each infraction to align more closely with the requirement of due process;**
- b. **integrate in the Principles of Conduct for Staff the latest office governance directives on Ethics to make the policy more effective and attuned to the needs of Staff;**
- c. **include in the Conflicts of Interest Policy provisions relating to incompatible functions within the Office to provide clearer and more complete line of sight in exacting accountabilities thereby further enhancing integrity in job performance; and**
- d. **incorporate in the Anti-Fraud Policy of 2009 an internal mechanism and clear modalities in terms of conducting fair and unbiased investigation on cases that may be committed by the Executive Head.**

47. **ILO Response.** The Office accepts the general direction of these recommendations and advises as follows:

- a. The whistle-blower protection procedure will be informed by the current JIU review of UN System-wide policies. The procedure will be updated clarifying the issue of proof and consideration will be given to addressing the corresponding sanctions following completion of an ongoing review of the Office's disciplinary sanctions;



- b. A review and update of the Principles of Conduct for Staff is scheduled to be completed during 2017;
- c. For completeness purposes, a general statement on the need to avoid the assignment of incompatible functions within the Office will be included in the relevant governance document on Conflicts of Interest when it is reissued following a review of the Ethics function planned for 2017; and
- d. The anti-fraud policy will be amended to more fully reflect procedures established to investigate fraud allegations pertaining to all officials.

2.2 Internal Control

48. We noted that in 2013, the External Auditor had assessed the internal control arrangements within ILO through the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework and made five recommendations. In turn, the ILO delivered several activities to put into effect these recommendations. As an overarching recommendation, the External Auditor recommended that *ILO should start working towards the issuance of Statement of Internal Control* and we noted that ILO is already expanding the reporting requirements of the internal letter of representation for the 2016 financial year.

49. We also observed that while policy frameworks on accountability and risk management are available within the Organization, no framework relating to the adoption of internal control is currently in place. The ILO averred that it has *a virtual Internal Control Framework that is based on the Financial Rules and Regulations, the Accountability Framework and its standards and mechanisms together with clear definition of roles and responsibilities of senior managers and delegation of financial authority, as well as a whole range of directives/guidelines/procedures contained in IGDS system. It does not have however, a documented tangible framework.*

50. While further works are now being undertaken by ILO in the lead up to the preparation of a Statement of Internal Control, we determined that there is still a need for the Organization to have a formal Internal Control Framework. This necessity is founded on the several value propositions that we submit. Firstly, the delivery of internal governance frameworks for accountability and risk management is not manifested elsewhere but on how internal controls are crafted that their alignment can guarantee a better functioning internal control. Also, the current governance documents within the Organization point towards the first line of defence for controlling its operations and an Internal Control Framework will complete the required three levels of defence.

51. Further, we noted that while the Internal Letter of Representation currently being prepared by the Organization covers the baseline governance requirements, it is primarily focused on internal financial controls to support its financial representations. A mechanism is thus needed to completely emphasize the need for management controls to perform as expected across the whole and varied operational and managerial aspects of controlling, an essential feature of a good internal control framework. Moreover, an Internal Control Framework will further clarify the use of the existing governance policies and guidelines and properly frame their delivery. With these, we highlight the recommendation made by the UN Secretary-General on the *adoption of an integrated risk management and internal control framework that will provide a consistent and comprehensive risk management methodology for the entire Secretariat* which may be considered by the ILO as specialized agency of the UN.



52. **We recommended and ILO agreed to reinforce its internal control arrangements in relation to its overall framework of governance through the crafting of a most appropriate internal control framework to ensure a more effective strategic management of its embedded controls, and align these controls more closely to the other existing governance mechanisms.**

53. **ILO Response.** The Office accepts this recommendation and will issue an internal control framework document based on the existing components. The formal framework document could serve as a management tool for the future development of internal control practices, stock-taking and ongoing self-assessment.

2.3 Risk management

54. In his report on the 2015 accounts, our predecessor as External Auditor, found that a sound risk management framework had been established and was in the process of being implemented, but that it was too early to assess the effectiveness of the governance structure, and that related training had not been delivered to all offices and departments. In response, ILO revisited its strategy for ERM, concentrating efforts on four pillars: building awareness and buy-in; creating skills and capacity; strengthening processes; and providing risk-related information and data.

55. Our review of Risk Registers of several ILO Department/Offices determined that the specified risks do not qualify to be inherent risks but can be better considered as residual risks, departing from the intention of risk registers as defined in the ILO ERM Framework. It was observed in some risk statements that the root cause and remedial action are either that: (a) the root cause is the same with the risk identified; (b) there was no indicated remedial action to manage the risk; or (c) the root cause is the same with the remedial measure.

56. The pervasiveness of the issues raised in the crafting of risk details suggest that additional work has to be done along this area. While ILO understandably deserves to have enough space for the ERM policy to develop and employ enhancement measures along the way, the on-boarding of the new Senior Risk Officer is expected to hasten the implementation of the risk management process. We noted that before the end of 2017, 18 outputs are already programmed to be delivered which is laudable. It is expected that the improvement opportunities that we raised will be considered in the delivery of these outputs.

57. **We recommended that the ILO consider in its 2017 planned enhancements of the ERM process the: a) formal process for risk communication and aggregation within 2017, in support of the updating of its Strategic Risk Register; b) improvement in the clarity of guidance on identification of inherent risk; and c) a more robust programme on risk management competency build-up amongst its staff to warrant a more effective delivery of risk management across the Organization.**

58. **ILO Response.** In general the Office agrees with this recommendation. It is committed to increasing its risk communication, developing further training and to putting in place measures to identify cross-cutting/systemic risk. The Office is well advanced in implementing the 18 actions programmed under the strategy for 2017 addressing these points. As for the observations on inherent and residual risk, the focus of ILO's upcoming work on risk management will focus on the management of residual risk, to help managers identify and respond to the challenges that cannot be handled adequately by current policies, procedures and controls. The ERM Framework will be modified to reflect this evolution.



2.4 Results Based- Management

2.4.1 Delivery of Results-based Management

59. Since 2000, the ILO has progressively implemented RBM across all stages of the ILO's programming cycle, including programme planning, implementation, reporting and evaluation. This is done by embracing the structured critical thinking process called the Theory of Change. This process involves defining and managing the organizational and programme outcomes that any public entity intends to deliver is a good governance requirement. To achieve accountability for results however, the causal relationship of the elements of the results chain or framework must be clear and evident, with controlled management, to explain the causality and attribution amongst inputs and activities and all levels of results - outputs, outcomes and impact.

Assessment of Strategic Objectives (SOs) to effect the changes influenced by ILO's interventions

60. The ILO's diverse tasks are grouped under four (4) SOs: 1) promote and realize standards and fundamental principles and rights at work; 2) create greater opportunities for women and men to secure decent employment and income; 3) enhance the coverage and effectiveness of social protection for all; and 4) strengthen tripartism and social dialogue. These four SOs on which the outcomes of the Programme and Budget (P&B) 2016-2017 are anchored, are supported by 10 policy outcomes and three (3) enabling outcomes.

61. These SOs, adopted in 2000 and had been stated in similar manner across several biennia, are considered as results or changes in the conditions of ILO's constituents that the Organization aims to achieve through its interventions. We observed that the SOs are areas of labour concerns and do not explicitly specify the changes that the Organization intends to attain. We also observed that the SOs do not specify the results or changes which ILO had planned in previous biennia in the aforementioned labour areas. We further noted that the defined outcomes that have been achieved and remained to be achieved partly through ILO's intervention and resources have not been precisely identified. As such, there are no clear bases for defining outcomes or expected changes as well as the ILO interventions in achieving these changes.

62. The ILO commented that although the four SOs remain the same, the policy outcomes reflect specific expected changes identified for the period covered by each SO. The specificity comes at the outcome level and the higher level goals can be equated to the 2030 Agenda. On these representations, we emphasized that there are three levels of results prescribed by RBM— **impact, outcome and output**. In the case of ILO, the SOs correspond to the impact. Being the results themselves, the SOs and not only the policy outcomes should reflect the desired changes achievable within an agreed period. Under the Theory of Change, the higher-level result or impact is identified first and on that basis, the outcomes would be developed.

63. When SOs are not stated as desired changes and are not specific: (1) the same cannot clearly communicate the desired results or changes to be accomplished; (2) will not provide the rationale for delivering the outcomes or the products and services; (3) the SOs do not enable monitoring, evaluation and reporting of their achievement; and (3) it does not clarify the results to be achieved for which the Organization and its constituents are accountable. Since the SOs do not specify the



desired higher level change or impact, the causal relationship between the outcomes and the attainment of the SOs could not also be established. But it cannot be discounted that the ILO has the accountability to assess what it has already achieved under its four SOs and what remains to be achieved based on the needs of its constituents.

64. We recommended that the ILO:

- a. initiate assessment of the most recent achievements in the SOs to initially identify areas of concern needing continued support, and present these in accordance with the Organization's accountability hierarchy to solicit comments and agree on the priority higher level changes to be achieved within an agreed timeline; and**
- b. craft the SOs in a change language before the end of the planning period to reflect specific, measurable and time-bound higher-level changes as improvement over the baseline conditions, considering the related assumptions and risks, moving forward.**

65. ILO Response. The Office takes note of the recommendations. The process of reformulation of the four Strategic Objectives (SOs) to better express expected higher-level changes or impact, and the accompanying requirements in terms of developing SMART attributes and a cohesive Theory of Change, is a significant undertaking with far-reaching implications that will require endorsement by the ILO's governance organs. As such, considering that the Governing Body approved the Strategic Plan (SP) for 2018-21 in November 2016 and the Programme and Budget proposals for 2018-19 in March 2017, the implementation of these recommendations will be pursued in the context of the Office's work on the Programme Implementation Report for 2016-17, and subsequently the preparation of the Programme and Budget for 2020-21.

Alignment of Outcomes to SOs

66. We noted that for 2016-2017, a transitional SP was adopted for the ILO to align with the UN quadrennial 2018-2021 programming cycle. In the results framework, we observed that the four (4) SOs show an overarching link to the 10 policy outcomes. The P&B 2016-2017 does not however, show a specific outcome that influences or contributes to a particular SO. In the P&B for the last seven biennia, covering the 2000-2013 period, outcomes/operational objectives were linked to a particular SO.

67. The ILO informed us that one underpinning consideration for moving to a different presentation is the indivisibility of the SOs as these are interrelated, inseparable and mutually supportive. Although in the Strategic Policy Framework (SPF) 2010-2015, each outcome was broadly associated with one specific SO; it was understood that each outcome in its own right contributes to all SOs. While no single outcome can be associated strictly with one SO due to the broad manner in which they were stated, we determined that there are outcomes that significantly contribute to either one of the four SOs as have been identified in the P&Bs of previous biennia. Given that SOs are inter-related and mutually supportive and taking into account the significance of the contribution of the outcomes to the SOs, the causal relationship of an outcome to an SO may still be established without affecting their interdependence.



68. The ILO commented that it is not possible in a strict one-to-one sense and runs contrary to the logic of the current set of policy outcomes as approved by the Governing Body (GB). It is also concerned on the type of changes at the SO level which could be achieved in two years. However, ILO did not clarify and specify how the alignment of an outcome to an SO will run counter to the logic of the current set of policy outcomes.

69. While the ILO adopts RBM, its practice of not defining its intended higher-level changes in its SOs to allow for clear bases for the outcomes and ensure that outcomes' alignment with the SOs, is not compliant with the RBM requirement that it has adopted. The Organization has to clearly express in the SOs and outcomes, the achievable desired changes within a given planning period giving regard to their causal relationship, and the assumptions and risks. Distinctly defined SOs provide the rationale for the outcomes in the same way that outcomes will clarify the necessity of the outputs. SOs being higher level changes are not expected to be achieved over a period of two years. Depending of the nature of the outcomes, they may or may not be achieved within two years but should not go beyond the timelines for the attainment of the SOs. Outputs should however be achievable within a biennium. Focusing on realistic specific changes in the world of work, which the Organization can influence, could improve the delivery of results. This will also help clarify what the ILO, its constituents, and other partners are to achieve within an agreed timeline, and enhance measurability and accountability for results.

70. **We recommended that the ILO:**

- a. **identify and prioritize, the expected changes or outcomes achievable within a given period, express them following the SMART attributes and present them under the SO to which they contribute; and**
- b. **ensure that the SOs and outcomes express the desired higher-level and immediate changes achievable within the agreed planned period, and adopt the SMART attributes in their formulation.**

71. **ILO Response.** The implementation of these recommendations will be pursued in the context of the Office's work on the Programme Implementation Report for 2016-17, and subsequently the preparation of the Programme and Budget for 2020-21. The Office will consider the guidance received by the Governing Body during the discussion of the programme of work to give effect to the resolution on Advancing Social Justice through Decent Work (GB 329th session, March 2017), especially in relation to the proposals to improve the results framework.

Linkage of outputs to outcomes and accountability for delivery

72. In the RBM results chain/framework, outputs brought about by the completion of activities for which resources have been utilized, contribute to the planned outcomes or expected changes. Outputs therefore are the products, services or internal changes the Organization is accountable to deliver to ensure that it is able to influence the expected changes. The three levels of the organization – HQ, ROs and COs all contribute to the achievement of the expected changes through their respective outputs.



73. We noted that the P&B was not clear on the respective deliverables of each level of the Organization in support of the expected changes. The P&B presents the most significant outputs to achieve the outcomes which are generally the deliverables of the HQ departments/offices. Accountability for the outputs was, thus, not clear and would not ensure ready verification of alignment and traceability of HQ, ROs and COs' outputs to their respective Outcome-Based Workplans (OBWs) or Unit Workplans (UWPs). They also appear to have been written in a manner that they encompass the significant outputs given the nature of the work and the outputs to be delivered for the biennium. This makes the formulation of specific and limited indicators and the measurement of progress difficult. The clarity on which significant outputs influence the achievement of each of the expected changes was not evident as the outputs were merely listed without establishing their linkage to the expected changes to which such outputs contribute.

74. The ILO's Outcome Coordinating Team (OCT) Leads or Focal Points for Outcome 1, 2, 3, and 4 confirmed that the most significant outputs can be mapped to the outcomes to which they contribute to. The OCTs also commented that the difficulty is the definition of only a limited number of specific significant outputs that would capture the relevant work to achieve the expected changes. The linking of the outputs to more than one expected change or indicator is, however, due only to the transversal nature of the outcome. With the unclear linkage of the outputs to the expected changes or outcomes; the necessity, relevance, and causal relationships of the outputs to the achievement of the expected changes could not be easily established and analysed.

75. **We recommended that the ILO:**

- a. **distinguish and prioritize the Outputs which most significantly contribute to the Outcomes, present with clarity which Outcome the Outputs influence and identify which level/s of the Organization is/are responsible for their delivery to clarify accountability; and**
- b. **initiate a re-thinking process of the P&B structure by all levels of the Organization, on how the Theory of Change and the causal relationships of the outputs, outcome and impact/SOs can be presented with clarity to improve measurability and accountability for results.**

76. **ILO Response.** The Office agrees with these recommendations and notes that it has already made significant progress in implementing them. The Programme and Budget Proposals for 2018-19 have further clarified the links between the expected changes to be achieved with ILO support under each policy outcome and the most significant output the Office will deliver as part of the strategy to achieve those changes. The delivery of outputs relies on the integrated use of all resources available to the ILO, whether from assessed contributions or voluntary contributions, as planned from across technical programmes at headquarters and regions at the time of preparing the Programme and Budget and further detailed in OBWs at the time of the programme implementation. The Office acknowledges the need to further improve accountability for its outputs and has chosen to do so as part of the implementation of the Programme and Budget during 2018-19, together with a clearer presentation of the theory of change.



Measurement of Strategic Objectives and Outputs

77. As SOs and outcomes are changes to which ILO's interventions contribute to and outputs are changes in skills or capacities or are new products or services for which the ILO is solely accountable for, they are to be monitored and measured, and their progress or results reported. Under all the P&Bs, interventions and resources have been provided by ILO in support of the SOs.

78. On the adoption these SOs over several past biennia, we observed that the P&B did not provide for indicators, with baselines and targets to measure progress in the attainment of the SOs, and aggregation of ILO's outputs to the outcomes and the SOs. Such limitation in measurement is brought about by SOs that did not specifically state the expected results/changes to which ILO intends to contribute to in the areas of employment, rights at work, social protection and social dialogue. Also, we observed that the most significant outputs were without these indicators, baselines and targets for the measurement of their progress towards the attainment of the outcomes. Further, we observed that while outputs and outcomes are two different levels of results, their measurements were not done using separate indicators, baselines and targets. Moreover, a set of agreed significant and common outputs to be delivered at the level of the RO and CO which will be used to measure progress towards the outcomes, were also not determined, presented and measured through agreed indicators, baselines and targets to support subsequent decisions and actions of the Organization. All the foregoing diminishes the ability to support the subsequent SP, the P&B, the reported accomplishments and the determination of what still needs to be achieved.

79. **We recommended and ILO agreed that:**

- a. **initiate discussions on the measurement of the agreed SOs and Outputs using SMART indicators, baselines and targets, based on the results of the assessment of the achievements of the SOs and agreed higher-level changes;**
- b. **agree on the common most significant Outputs that are achievable within the biennium to be delivered by various levels of the Organization, which contribute to and will be used to measure progress of the outcomes, and formulate their SMART indicators;**
- c. **ensure that the Outputs reflect the Office's products and services and not the results to which they contribute to, and that these Outputs and its Indicators are reflected consistently in the workplans across the Organization for uniform measurement of results; and**
- d. **develop guidance on the measurement of SOs and Outputs based on agreements reached.**

80. **ILO Response.** The implementation of these recommendations will be pursued in the context of the Office's work on the ILO Programme Implementation Report for 2016-17, and subsequently the preparation of the Programme and Budget for 2020-21.



Harmonization of RBM policies, tools and application in the P&B, DWCPs and DC projects

81. In the review of the P&B, Decent Work Country Programme (DWCPs) and Development Cooperation) DC projects, we observed that the P&B intends to measure only the outcomes as evidenced by the provision of only outcome indicators, baselines and targets. In the DWCP, only the Country Programme Outcomes (CPOs) are to be measured and not the outputs. For the DC projects, the logical framework requires indicators for the impact, outcome, outputs and activities; however, baselines and targets were not required. This arrangement will not facilitate a more appropriate measurement of progress or performance.

82. On the other hand, the P&B did not present the assumptions and risks for the SOs, outcomes and outputs, but provided a risk register under Enabling Outcome B. In the DWCP's results framework, the assumptions and risks are presented for the CPOs but not for the outputs and the mitigation strategies, pursuant to the newly released guidebook on the DWCP. For DC projects, the logical framework presents the assumptions and risks for the impact, outcome, outputs and even the activities but not the related mitigation strategies.

83. Further, we noted that the related guidance on the P&B, DWCP and DC projects such as the: (a) ILO's guidebook on RBM and Strategic Programming and Management Department's (PROGRAM) Guidance for the P&B 2016-2017; (b) ILO Decent Work Country Programme: A Guidebook, Version 3; (c) ILO Decent Work Country Programme: A Practical Guidebook, Version 4; and (d) Partnerships and Field Support Department's (PARDEV) Development Cooperation Manual, all showed varying application of the RBM principles. As they are, the differences will not likely support the comprehensive application of RBM at all levels of the Organization and will not ensure a common approach and understanding of the RBM concepts and terminologies critical to the institutionalization of RBM and the development of a culture of accountability for results in the Organization. While part of RBM implementation is the promotion of a culture of results orientation, such cannot be built if the various systems and tools used to plan, monitor and evaluate results are different /diverse.

84. **We recommended that ILO initiate discussions amongst departments/offices involved in the P&B, DWCP and DC projects on the existing RBM application, to determine the root causes of the differences in policies, tools and application and to harmonize them to guarantee better results aggregation, moving forward.**

85. **ILO Response.** The Office agrees with the recommendation and will set up an internal task force to explore further improvements in the overall RBM approach so as to guarantee better aggregation of results taking into account the guidance received from the Governing Body during the discussion of the programme of work to give effect to the resolution in Advancing Social Justice through Decent Work (GB 329th session, March 2017), especially in relation to improving DWCPs. It will also avail of the forthcoming opportunities such as staff development activities and programming meetings to identify and address difference between RBM tools and related application with a view to enhance harmonization.



2.4.2 Programme Results in Workplanning

86. Workplanning is a mechanism for accomplishing an organization's programme results objectives and at the same time managing the staff who will work towards those objectives. It should, thus, be designed and managed in such a way that will allow for immediate improvements in programme delivery. In ILO, we observed that the Unit Workplans (UW) of the ten policy outcomes and Enabling Outcome A are prepared by the OCT. For Enabling Outcomes B and C, UWs were however prepared by the contributing Departments/Offices. UWs in support of the OBW are prepared by the Departments/Offices contributing to the ten policy outcomes and Enabling Outcome A. The OBWs are biennial workplans for the intended outcomes in the SP and the P&B. They define the priorities, strategies and resource allocations to reach the targets established in the P&B. It also provides the basis for more detailed UWs to be developed by HQ departments/offices and field offices. On the other hand, UWs define sets of outputs or products and services with their related activities and cost, timelines, and assign responsibilities for their implementation. The UW focuses on the main outputs to be delivered within the biennium.

Cascading of P&B Outcomes to Workplans

87. In the review of the delivery of OBWs, we observed that the alignment of the CPO to the P&B outcome in the OBWs is shown through the P&B outcome indicator adopted. Generally, the OBWs reviewed provide the P&B indicator for the CPOs to establish their linkage to the P&B outcome. The most significant outputs in the P&B which are Global Products (GPs) could not however, be easily traced to the OBWs for Outcomes 1, 2, 3, 5, 6, 8 9, and Enabling Outcome A. This necessitated clarification with the respective OCTs on whether the significant outputs in the P&B have been incorporated in the OBWs as these were not expressed therein. Further, we noted that the generic statements of the most significant outputs in the P&B and the more specific outputs in the OBWs contributed to the difficulty of establishing the link of the GPs with the P&B to the respective OBWs. OCTs therefore had to be requested to do a mapping of the most significant outputs in the P&B to their OBWs.

88. While there may be one or two GPs in both the Strategic Management Implementation Planning Module (SM/IP) and the OBWs, the P&B has several significant outputs which may be GPs that could not be readily be traced to the OBWs. The OCTs commented that it is possible to clearly show that the most significant outputs/GPs in the P&B are incorporated in the OBWs for purposes of implementation and monitoring.

89. We observed that the manner by which the OBWs and UWs were prepared would not effectively facilitate the cascading of the P&B outcomes to the individual workplans. Since there is no work planning facility in the Strategic Management Module (SM/M), it could not also be readily determined if all departments/offices have prepared their respective workplans on which the individual workplans would be based. Subsequently, without the UWs there will be no basis for the individual workplans to be used for performance appraisal. This would not also enable the clear aggregation of results from the outputs to the outcomes and to the SOs. Moreover, not being able to reflect some CPOs in the OBWs will likely caused progress and results that are not being monitored and reported on by the concerned OCTs.



90. We recommended that ILO:

- a. enhance the presentation of the most significant outputs in the P&B and the OBW to reflect clearly that the outputs in the P&B are the same as those in the OBW for improved traceability and monitoring of outputs;
- b. formulate its OBWs to show distinctly how the P&B outcomes flow to the OBWs by indicating therein the outcomes and/or outputs that supports those in the P&B;
- c. develop UWs appropriate for each level of the Organization ensuring that the Headquarters departments/offices and field offices' UWs show how their outputs relate to and support the OBW outputs, as the key information to establish such link; and
- d. improve the existing guidance on the OBWs to clarify the cascading of the P&B outcomes to the OBWs and UWs for enhanced monitoring and reporting on progress and results, and to provide bases for the individual workplans and subsequent staff performance appraisal.

91. **ILO Response.** The Office will start implementing these recommendations in the context of the new OBW exercise covering 2018-19, which is due by the end of 2017. In this regard, the Office will revise current guidance in order to better clarify the cascading of P&B outcomes to the OBW and UWs for improved monitoring and reporting on progress and results.

Use of OBW and UW formats

92. We noted that, generally, the OCTs adopted varying formats for the OBW which is different from the template prescribed by PROGRAM. The OBW format for the CPOs for Outcomes 3, 6, 8 and 9 were noted to be almost the same. These provided, among others, information on the CPOs and milestones by country and region under the main outputs. The OBW for Outcome 3, however, did not incorporate the measurement criteria and backstopping unit/s. Outcome 8's OBW includes the sector and/or category of worker but this is not in the OBW for Outcome 1, 2, 3, 6, 8 and 9. For Outcome 1, its OBW did not indicate the specific outputs, activities, responsible department/office, timelines, required and available resources, and funding gaps, if any. In the case of Outcomes 6 and 8, an almost similar format to the prescribed OBW format was used but served primarily as a monitoring report.

93. We have observed in the OBWs that instead of the outputs, what were provided were activities and the outputs of constituents, or the effect on constituents' conditions of the ILO's interventions, instead of the products and services to be delivered by the Office to achieve the outcome. The OBWs for Outcome 6 and 8 included outputs and activities but the timelines were not presented. For the GPs, PROGRAM issued a separate guidance and provided a related template. For Outcomes 1, 2 and 9, 10, Bureau of Employers' Activities (ACT/EMP) prepared their OBWs in accordance with the prescribed format. The OBWs for Outcome 3, 6 and 8 show similar information though not presented in the prescribed format.



94. We further observed that under Outcome 1, one UW from a Department and some departments under Enabling Outcomes A and B used the prescribed PROGRAM format for UWs while others used their own formats. The UWs received from ROs for Asia and the Pacific, Arab States, and Europe and Central Asia also provided different information because of their different formats. Also, we noted that a significant number of UWs were not received from departments/offices supporting the Outcomes; thus, the likelihood that some may not have developed their UWs. In fact, a Department admitted not preparing its own workplan.

95. The varied presentation of the OBWs and UWs are evidences of the different needs and preferences of the OCTs and Departments/Offices. Nevertheless, the use of different formats left the preparers with the decision on what information to provide missing the need for common information that will facilitate aggregation and consolidation of results. On the contrary, adopting a common format or template makes for uniformity of information foremost, keeps language succinct, and limits information to what is only necessary but ensuring that the essentials are captured especially for monitoring and reporting. As a significant accountability document, a well-planned and prepared workplan will itself work as a monitoring tool and will reduce efforts of maintaining several other tools.

96. **We recommended that ILO:**

- a. **facilitate a forum of OCTs, concerned departments and field offices where in consultation with each other they will review the current workplans, identify challenges and agree on the design/ format of the OBW and UW templates that will effectively address and support the planning, monitoring and reporting requirements across all levels of the Organization;**
- b. **ensure that the OCTs develop OBW and UW templates that will guarantee the clear cascading of the P&B outcomes to the level of UWs, the accountability for outputs, the monitoring of their delivery within given timelines, and the reporting on results; and**
- c. **develop guidance on the mandatory preparation of the workplans, defining accountabilities for their preparation, review, and approval and monitoring, to provide the basis for implementation, review, reporting of results and performance appraisal.**

97. **ILO Response.** The Office acknowledges the need to implement these recommendations and will do so by initiating a process of internal consultations aimed at establishing or revising relevant guidance, including templates, and at defining and ensuring that appropriate accountabilities are followed through. Existing guidance will be revised for the OBW exercises to be implemented in 2018-19.

2.4.3 Programme Results Monitoring

98. In results-based management, monitoring activities afford programme managers the opportunities to confirm the programme's logic and implementation, assess progress and make modifications as necessary. Programmes may be well designed, adequately planned and have sufficient human and financial resources but these may not ensure the achievement of expected



results. Programme managers can, however, improve the chances of achieving results with periodic and adequate monitoring of progress towards results. Monitoring is also an ongoing process which involves periodic review of progress against goals. The lessons obtained from monitoring are used for better-informed actions and decisions on the programmes.

Information System supporting Programme Deliveries and Results

99. We observed that monitoring of implementation of OBWs is done throughout the biennium where planned versus actual contribution by HQ and field offices to the target CPOs and GPs are examined. Periodic reviews are organized during the biennium to track progress, identify and address bottlenecks, adjust targets, resource requirements and allocations in relation to the relevant DWCPs. We noted that all units are encouraged to have a workplan in place at the beginning of each biennium which is to be monitored and updated within the same biennium. In the preparation of the OBW for the P&B Outcomes, some information can be drawn from the SM/M. It was confirmed by PROGRAM and OCTs interviewed that OBWs are prepared and updated outside of IRIS using spreadsheets. The preparation of the OBW is made partially possible in SM/IP in terms of CPOs and GPs but not in terms of the consolidated OBW by P&B Outcome. The SM/IP is used for strategic planning and is not designed for unit workplanning.

100. While some of the information needed in the OBWs can be drawn from SM/M, the same have to be extracted in a spreadsheet and the additional information are then encoded. For monitoring, the system does not prompt the user when updates on outputs or activities are encoded by country offices (COs). The updates have to be searched in the system for encoding in the workplan or the monitoring tool used by the OCT. This has been observed to be a very tedious activity for the OCTs especially for those with significant numbers of CPOs to be monitored. On the use and limitations of the SM/M and SM/IP, the OCTs enumerated a variety of comments ranging from the system not being user-friendly to lack of needed information that prevent the OCTs from obtaining related data. The OCTs also informed us that the SM/M provides static information entered at the beginning of the biennium, which in many instances is outdated or not sufficiently accurate and sometimes with missing data. Further, we observed that the Strategic Management Implementation Module (SM/IM) tracks only the budget, encumbrances, actual expenditures and funds available for the RBTC and Special Programme Account. On the other hand, the expenditures for Extra Budgetary Technical Cooperation (XBTC) in Oracle Grants Accounting (OGA) represents actual expenditures by outcome. This is not the case for the Regular Budget (RB) and Regular Budget Supplementary Account (RBSA).

101. The challenges encountered in workplanning, workplan monitoring and results reporting are apparent in the varying workplans received from the OCTs, Departments/Offices and ROs. These could have been addressed by a system which enables uniform workplanning across the Organization and which facilitates monitoring and reporting of the CPOs and GPs against resources utilized. Although the ILO delivers its services to its constituents through programmes implemented using RBM, it does not have a programme management system that fully enables workplanning, implementation management, monitoring and reporting of financial expenditures against results. There is, thus, a need for a more efficient and effective tool or system that addresses the needs of programme management.

102. We recommended that ILO facilitate an assessment of the needs of the OCTs and Departments/Offices throughout the programme management cycle, and the review of the capabilities of SM/M, SM/IP, OGA and IRIS to identify and apply the necessary enhancements.



103. **ILO Response.** The Office agrees with the recommendation and is committed to implement it within the constraints of a zero real growth budget.

Overall Monitoring System and Mechanisms

104. The current P&B results framework provides the architecture for measuring the results to be achieved within the biennium but makes no mention on how progress will be monitored. For the P&B Outcomes, we observed that the OCTs monitored progress through semi-annual review of the OBW. The first OBW progress review and reporting has already been completed. Outputs critical to the attainment of the outcomes were not however monitored using indicators, baselines and targets since the Office does not measure outputs. For the same reason, we noted that the review of the outputs of Departments contributing to the P&B outcomes were not undertaken.

105. We observed that the current ILO programme and project monitoring arrangements do not ably support subsequent decisions and learnings from the monitoring of results. It also does not strengthen organizational culture in terms of results documentation and the use of lessons learned as input to informed decision-making, programme implementation and evaluation, and subsequent programme planning and design. Given that what is being monitored is the level of progress towards a planned result which may either be an output, outcome or SO, a key consideration in the development of a monitoring framework is an explicit description of the Theory of Change described in a well-formulated results framework/chain. This will further clarify the specific changes being sought, and how the programme interventions will likely bring about these expected changes. The absence of a common monitoring framework that integrates the activities and information hinders (a) effective review of progress towards planned results; and (b) reporting on ILO's accountabilities to its stakeholders.

106. **We recommended that ILO craft a programme monitoring framework including the related tools that will enable a transparent, reliable, uniform and evidence-based assessment of progress on the achievement of planned results.**

107. **ILO Response.** The Office acknowledges the need to implement this recommendation and will do so by initiating a process of internal consultations aimed at establishing or revising relevant guidance, including templates, and at defining and ensuring that appropriate accountabilities are followed through.

2.5 Review of operations of Regional and Field Offices

108. For the financial year 2016, we audited two Regional Offices and two field offices. The objectives of our audit were to primarily determine the sufficiency of delivery of front-line controls in these Offices to ensure operational efficiency and effectiveness; compliance with policies and procedures; and the overall functioning of management controls. The critical areas where we noted improvement opportunities are as follows:

- a) **RBM Delivery in DWCPs.** We noted that some development goals (impacts) and immediate objectives (outcome) are in the form of general output statements that do not express results in the form of significant changes in the conditions of constituents. Several programme outputs were also stated as activities that do not pertain to ILO's interventions. We also noted that some indicators do not have SMART attributes, and do not clearly show



the causal relationship with the results being measured. In addition, a number of country programme outcome statements (CPOs) in the DWCPs do not satisfy the RBM definition of outcome, certain outcome statements are not stated as intended changes in development conditions as a result of the project intervention and some appraisal comments of PARDEV in the project design are not properly addressed by the project originators. We further noted that project appraisal checklists were not always accomplished and several outputs were inconsistent with the parameters set out by the “How to” guideline. Further, there were continuous releases of progress payments to an implementing agent despite the noted delays in the submission of the required Financial Progress Reports, while, there are some projects with final reports where unspent balance have not yet been refunded to the donor.

b) Human Resource Management - managing staff performance. We noted that the Beginning of Cycles (BoCs) and End of Cycles (EoCs) evaluations of some staff members were not completed within the deadlines and generally, the staff’s outputs in the sampled PAR do not have SMART attributes. We also noted delays in the completion of performance appraisal forms in ILO People and data inaccuracies in the Performance Management Framework (PMF) compliance report.

c) Travel Management. We observed issues with regard to travel plan, travel requests initiation, travel claims and mission report submission. We also noted issues on settlement of travel advances not undertaken in accord with IGDS 437.

d) Asset Management. We noted that Furniture and Equipment (F&E) inventory were not distinguished into capitalized and expendable items, trackable and non-trackable, which made monitoring challenging, resulting in discrepancies between the recorded Asset and INI Inventory. We also noted unrecorded newly acquired sensitive items and extra-budgetary procured items in INI and F&E spreadsheet, respectively. We further noted that disposed items were not properly documented and the recording of data from the Disposal Certificates to the INI was not regularly updated.

e) Procurement Management. In one office we noted that the principle of segregation of duties was compromised as incompatible procurement functions were handled by the same person. We also noted that there were no Purchase Requisitions in requesting items for procurement and no Request for Quotations prepared for procurements below the \$30,000.00 threshold. Moreover, controls on the segregation of incompatible functions were not observed and opened the need to designate a Contract Administrator.

f) Risk Management. We noted that Risk Registers had not been updated and the risk contextualization was not considered in identifying the risks and remedial actions. Project implementation risks were not also identified. We also noted non-alignments between inherent risks and its underlying root causes which were critical to ensure the effective delivery of risk remedial actions identified in the Risk Register.

109. We concluded that overall there was a reasonable level of assurance that sufficient financial controls and operational processes were in place. However, in some areas the level of Regional and Country management controls need to be enhanced. We have communicated to Management through a Management Letter on these issues.



110. **We recommended that the ILO enhance the level of management controls in its Regional and Country operations by further improving their monitoring and supervisory controls over critical processes to warrant the performance of the embedded controls as intended.**

111. **ILO Response.** ILO management of the regional and field offices expressed their commitment to consider the recommended measures.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

112. We validated the implementation of External Audit Recommendations contained in prior year audit report. We noted that of the nine recommendations, three or 33 per cent had been implemented while six or 67 per cent are still in progress of implementation. The status of the six recommendations which are in progress will be validated and reported in the next financial reporting period. We encourage ILO to implement the audit recommendations. **Annex A** presents the detailed analysis of the implementation of the recommendations.

D. DISCLOSURES BY MANAGEMENT

113. **Write-off.** Management reported that in accordance with Article 33 of the Financial Regulations, a total of USD 221,907.54 were approved for write off by the Treasurer. We noted that the appropriate procedures for the write off were observed.

114. **Ex-gratia payment:** In accordance with Article 32 of the Financial Regulations, ILO made ex-gratia payments of USD 13,413.34 in 2016.

115. **Frauds and Presumptive Frauds:** ILO reported 12 cases of fraud or presumptive fraud in 2016. Six cases involve SHIF claims and payments. Other cases are: (a) dishonest travel claims; (b) fraud committed by implementing partner; (c) forged check – not successfully paid by bank; (d) procurement of items by staff which is 30-50 percent more expensive; and (e) claiming of loss of salary and insurance despite having a contract and working. All of the cases were referred to IAO for the conduct of investigation and to render a report thereon. We are satisfied with the actions taken by Management in addressing the reported fraud cases.

E. ACKNOWLEDGEMENT

116. We wish to express our appreciation for the cooperation and assistance extended to our staff during our audit by the Director-General, the Deputy Director-General, Regional Directors, HQ Directors, the Treasurer and Financial Comptroller, Country Directors and members of their staff.

117. We also wish to express our appreciation to the Governing Body and to the International Labour Conference for their continued support and interest in our work.



Annex A

**STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS
(ILC.105.FIN)**

	Recommendation	External Auditor's Validation
1	SHIF payment processing and control: The current situation needs immediate attention and remediation in order to avoid further costs. Recommendations made by the Chief Internal Auditor, in his August 2015 report on the Staff Health Insurance Fund, ranked critical and high importance should be addressed by management in the coming months (paragraph 21)	In progress The Office is in the process of addressing the recommendations of the Chief Internal Auditor. Thresholds, approval levels and internal procedures were modified to enhance controls. Staffing was reinforced and information technology systems used by SHIF were updated. A study by an external consultant has also been initiated to review the advantages and disadvantages of alternative operating models.
2	Effectiveness practices and overall accountability framework: The ILO should continue its effectiveness practices and coordinate its initiatives with the UN system. It should also improve its overall accountability framework, including implementing a Statement of Internal Control (paragraph 42)	In progress The Office is in continual monitoring of its governance and accountability framework. It is also in continues involvement in UN inter-agency initiatives. The initial steps in the implementation of a Statement of Internal Control will continue throughout the current biennium. The target date for implementation is 31 December 2017.
3	Audits of the Headquarters Renovation Project: The Office Internal Audit and Oversight should continue its audits of the headquarters renovation project as the project progresses and hire external expertise as required (paragraph 49)	Implemented The project continue to be part of the regular audits by the Office of the Internal Audit and Oversight. An audit was also conducted by an external entity with expertise on construction project. The audit results were positive with respect to the contractual arrangements, transparency, and control.



4	Enterprise Risk Management (ERM): ERM-Review of Risk Registers. The ILO should ensure that all individual risk registers are completed and reviewed, and that feedback is provided to risk owners. The ILO should put in place a system to total the individual risk registers to identify cross-cutting risks and remedial actions and provide a clear link to the strategic risk register. It should also clearly outline and document monitoring and evaluation of mitigation and remedial actions. With a change in the Senior Risk Officer, clear instructions in training manuals, procedures and reports are critical to a successful transition (paragraph 67)	Implemented The aggregation of risk registers was completed.
5	ERM-Revisit of Strategic Risk Register. Once the ILO has completed and totaled all risk registers, the Risk Management Committee, together with the Senior Management Committee, should revisit the strategic risk register to assess all residual risks identified in the corporate risk register and, if required, align remedial actions with its risk tolerance. The review of the strategic risk register should also consider the risk assessments and remedial actions carried out by other UN organizations (paragraph 68)	Implemented The revision the strategic risk register was completed.
6	ERM-Guidance on the principles of ERM, implementation and monitoring. The ILO should continue to provide guidance on the principles of enterprise risk management, implementation, monitoring, and reporting. Human Resources Development should be involved in the training to ensure that training profiles are updated and that training evaluation is in place to improve future training sessions (paragraph 69)	In progress The training material developed for risk management training has been shared with the Human Resources Department to commence addressing the observations made. Also, to expand the training outreach, the possibility of developing an e-training module is being explored.



7	ERM-Lessons-learned exercises. The ILO should conduct lessons-learned exercises on preparing and implementing risk registers, monitoring risk, and reporting activities at the ILO. It should enhance communication to promote and ensure that risk management is embedded into ILO standard procedures and core processes and is key to the achievement of ILO's objectives (paragraph 70)	In progress Plans for the development of risk management will include regular assessment of opportunities, communications element, and a retrospective on major risk management exercises.
8	Training programmes and workforce requirements: The ILO should: formalize its post-training evaluation activities, assess the effectiveness of its training programmes, and continue to improve training programmes; and pursue efforts to increase the response rate of completing employee profiles, so that it has complete and reliable information to conduct workforce analysis for determining current and future workforce requirements and training needs. (paragraph 78)	In progress The Office continues to enhance existing processes that identify and analyse training needs, define learning objectives and design and improve activities. Improvements in the design process started for new offerings developed and introduced in 2016/early 2017. Initiatives were completed towards increasing compliance with the Employee Profile and assist staff in completing their profiles. The Office plan to make enhancements and continues to promote the use of Employee Profile tool. In addition, the performance management module is also used to determine future workforce requirements and training needs.
9	Staff succession planning : The ILO should develop a comprehensive succession planning process and continue to increase staff mobility to allow them to gain the experience necessary to take on higher-level positions (paragraph 88)	In progress Using Employee Profile tool, the new mobility policy, the revised procedure on Recruitment and Selection and the new Collective Agreement on recruitment and selection, the Office is in continuous improvement of its succession planning. Both geographical and functional mobility of staff will continue to be promoted through the new procedures on recruitment and selection and the Recruitment, Assignment and Mobility Committee.



6. Appendix

Additional unaudited information



Detail of net assets revenue and expense by fund for 2016 (US\$ thousands)

	Net Assets 31 Dec 2015	Revenue 2016	Expense 2016	Foreign exchange gain/(losses) 2016	Net result 2016	Deficit financing	Adjustments to Net Assets	Net Assets 31 Dec 2016
Funds with approved budget:								
Regular Budget	103 676	382 854	(373 352)	8 393	17 895	(16 568)	(5 382)	99 621
CINTERFOR	860	1 661	(1 496)	(10)	155	–	–	1 015
ITC	19 646	41 497	(42 875)	202	(1 176)	–	(1 015)	17 455
Subtotal	124 182	426 012	(417 723)	8 585	16 874	(16 568)	(6 397)	118 091
Subsidiary funds:								
Development Cooperation Projects	–	199 085	(199 085)	–	–	–	–	–
RBSA	46 745	13 826	(14 479)	(289)	(942)	–	1	45 804
Programme Support Income	67 741	21 073	(19 066)	(1 569)	438	–	6	68 185
Publications	1 209	350	(110)	(4)	236	–	–	1 445
Information Technology System	1 642	9	–	(5)	4	–	–	1 646
Research	15 712	86	(636)	(48)	(598)	–	–	15 114
Gifts, Grants and Reimbursable Costs	5 083	2 874	(3 425)	(25)	(576)	–	1	4 508
Land and buildings	455 070	9 798	(2 521)	1 096	8 373	–	78 736	542 179
Building Accommodation	73 295	32 771	(34 728)	(2 667)	(4 624)	–	–	68 671
Working Capital	19 118	–	–	(1 539)	(1 539)	16 568	–	34 147
Income Adjustment Account	61 905	1 968	(661)	(3 191)	(1 884)	–	–	60 021
Prior Period Surplus	800	4	(10)	(28)	(34)	–	–	766
Special Programme Accounts	12 153	56	(2 919)	(273)	(3 136)	–	–	9 017
Terminal Benefits	(2 013)	5 248	(4 125)	(35)	1 088	–	2 234	1 309
SHIF	61 652	45 521	(43 959)	(1 851)	(289)	–	–	61 363
ASHI Liability	(1 159 231)	–	(36 830)	–	(36 830)	–	(111 269)	(1 307 330)
ASHI Reserve	3 625	1 209	–	(12)	1 197	–	–	4 822
Other Funds	2 777	4 763	(4 267)	(10)	486	–	1	3 264
Subtotal	(332 717)	338 641	(366 821)	(10 450)	(38 630)	16 568	(30 290)	(385 069)
Inter-fund elimination	–	(109 607)	109 607	–	–	–	–	–
Total	(208 535)	655 046	(674 937)	(1 865)	(21 756)	–	(36 687)	(266 978)