International Labour Organization

Financial report and audited consolidated financial statements for the year ended 31 December 2022

and Report of the External Auditor

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International Labour Office, Geneva

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Introduction

1. The 2022 consolidated financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). They cover all operations under the direct authority of the Director-General which include the regular budget, extrabudgetary funded activities, the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR), the International Training Centre of the ILO (Turin Centre), the Administrative Tribunal of the ILO and the ILO Staff Health Insurance Fund (SHIF) activities.

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 2022 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 22 to the financial statements.

5. In March 2022, Mr Gilbert F. Houngbo was elected as the ILO's 11th Director-General by the Office's Governing Body for a five-year term. He took office in October 2022. During the intervening time, before the administration of Mr Guy Ryder left the Office, a Transition Team was created to arrange the transfer between the two management teams. The Transition Team initiated preparatory work on the transfer of knowledge and helped to put in place key components of the Director-General's vision statement. In October, the Director-General announced a revised organigram of the Office, detailing organizational changes and restructuring, with a revised management profile and senior management structure.

Financial highlights for 2022

6. The financial year 2022 was a year during which the ILO saw a gradual return to a more normal level of activity, with a tapering off of challenges arising from the COVID-19 pandemic that started in early 2020. Following the lifting of COVID-19 restrictions by the Swiss federal authorities, including the obligation to work from home, the ILO began a progressive policy of return to office for its headquarters-based staff. Many official functions remained in hybrid format for much of the year, including the Governing Body and the International Labour Conference. Regional locations, including the Turin Centre, remained subject to their own local conditions and restrictions, which in many cases lasted well into 2022.

7. The increased investments in new systems and technological equipment in the earlier years of the pandemic continued to play a key role in ensuring business continuity. They positioned the Office to move forward with new working methods and more flexible human resource management. The ILO continued to adapt to deliver its mandate and policy work to meet the changing needs of its constituents. While the effects of the pandemic continue, ILO programmatic actions remained responsive to new and unpredictable change as new world crises emerge.

8. The financial results for the year showed a level of activity consistent with the first year of a biennium, and a marked improvement when considering the position in the first year of the previous biennium. The transitionary period in leadership and senior management also had an impact on the strategic course of the Office's work. As in previous biennia, it is envisaged that the second year of the 2022–23 budgetary period will pick up on activities and corresponding expenditures. The table below summarizes the financial situation of the ILO in 2022 as compared to 2021 and 2020 (the first year of the previous biennium):

(US$ thousands)	2022	2021	2020
Revenue	878 557	889 241	770 113
Expenses	(887 250)	(888 686)	(769 290)
Foreign exchange gains/(losses)	(12 230)	(48 841)	55 491
Surplus (deficit)	**(20 923)**	**(48 286)**	**56 314**
Assets	2 600 717	2 621 825	2 642 709
Liabilities	(2 598 963)	(3 325 612)	(3 400 513)
Net assets	**1 754**	**(703 787)**	**(757 804)**

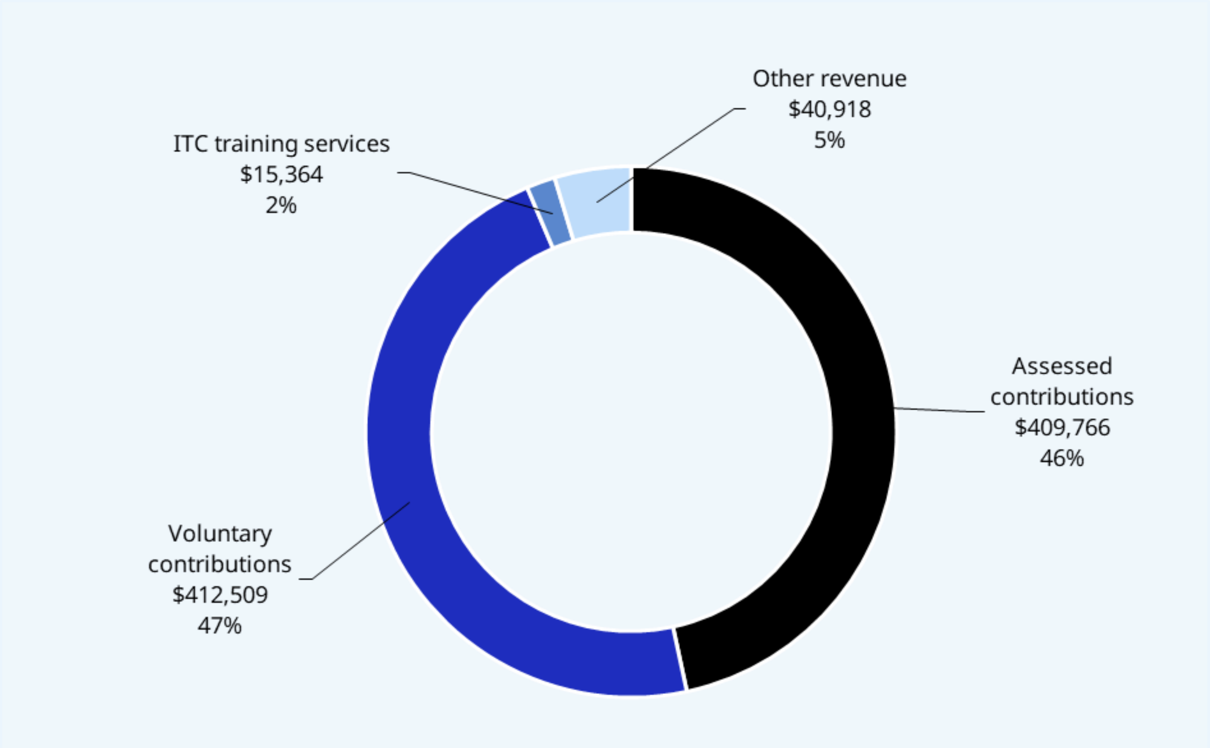
9. An analysis of revenue and expenses is provided below in the "Financial performance" section of this report. Further information on the most significant movements in assets and liabilities is provided in the "Financial position" section. The consolidated statement of changes in net assets (Statement III) provides the details of the movements in net assets.

Financial performance

Revenue

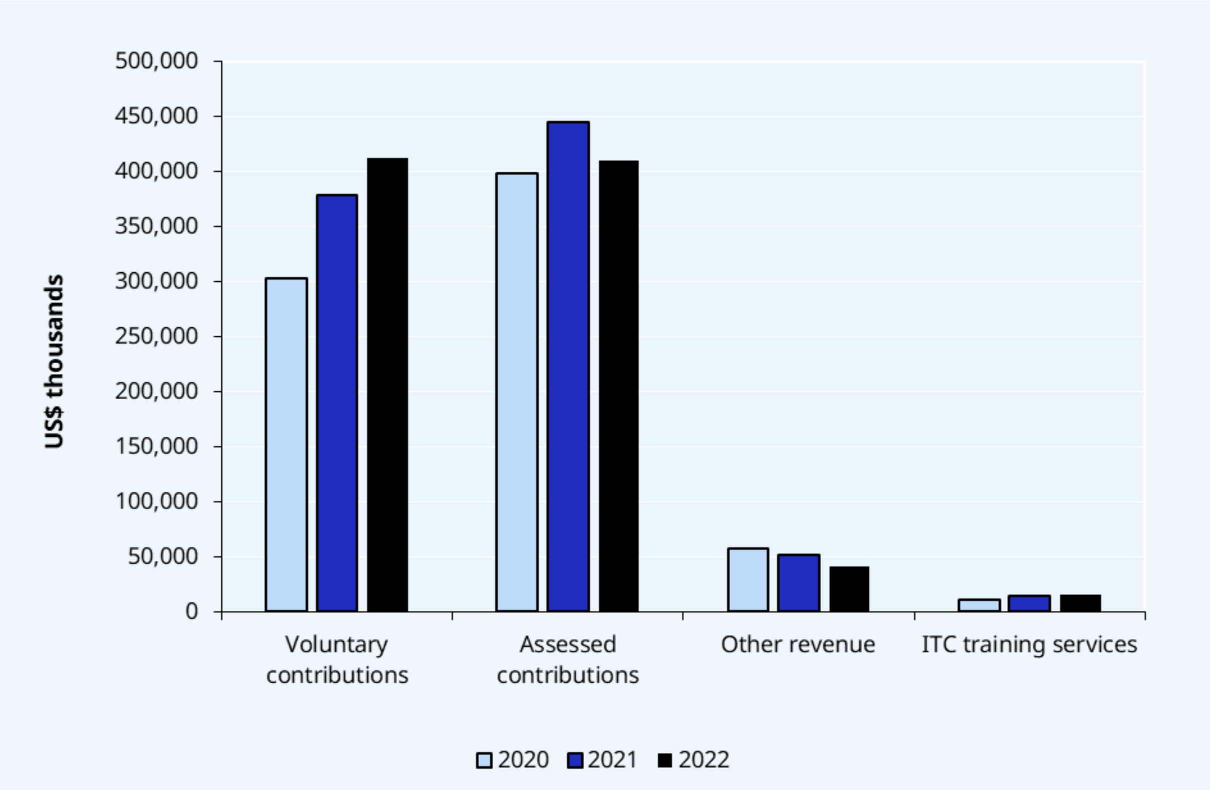
10. Revenue in 2022 totalled US$878.56 million, representing a decrease of US$10.68 million over total revenue of US$889.24 million in 2021. Sources of revenues in 2022 were as follows:

▶ Figure 1. Revenue by source, 2022 (US$ thousands)



11. The two principal sources of revenue for the Organization were voluntary contributions and assessed contributions from Member States, representing 93 per cent of total revenue. Figure 2 below provides a three-year comparison of revenues by category:

▶ Figure 2. Revenue, three-year comparison



12. The current year increase in voluntary contributions revenue of US$33.2 million is mainly attributable to contributions to development cooperation projects of the ILO. These contributions are normally subject to performance conditions in the donor agreements and are therefore recognized as deferred revenue liabilities under IPSAS until the performance conditions are met through programme delivery. Details on voluntary contribution activities are provided in the "Operational activities" section of this report.

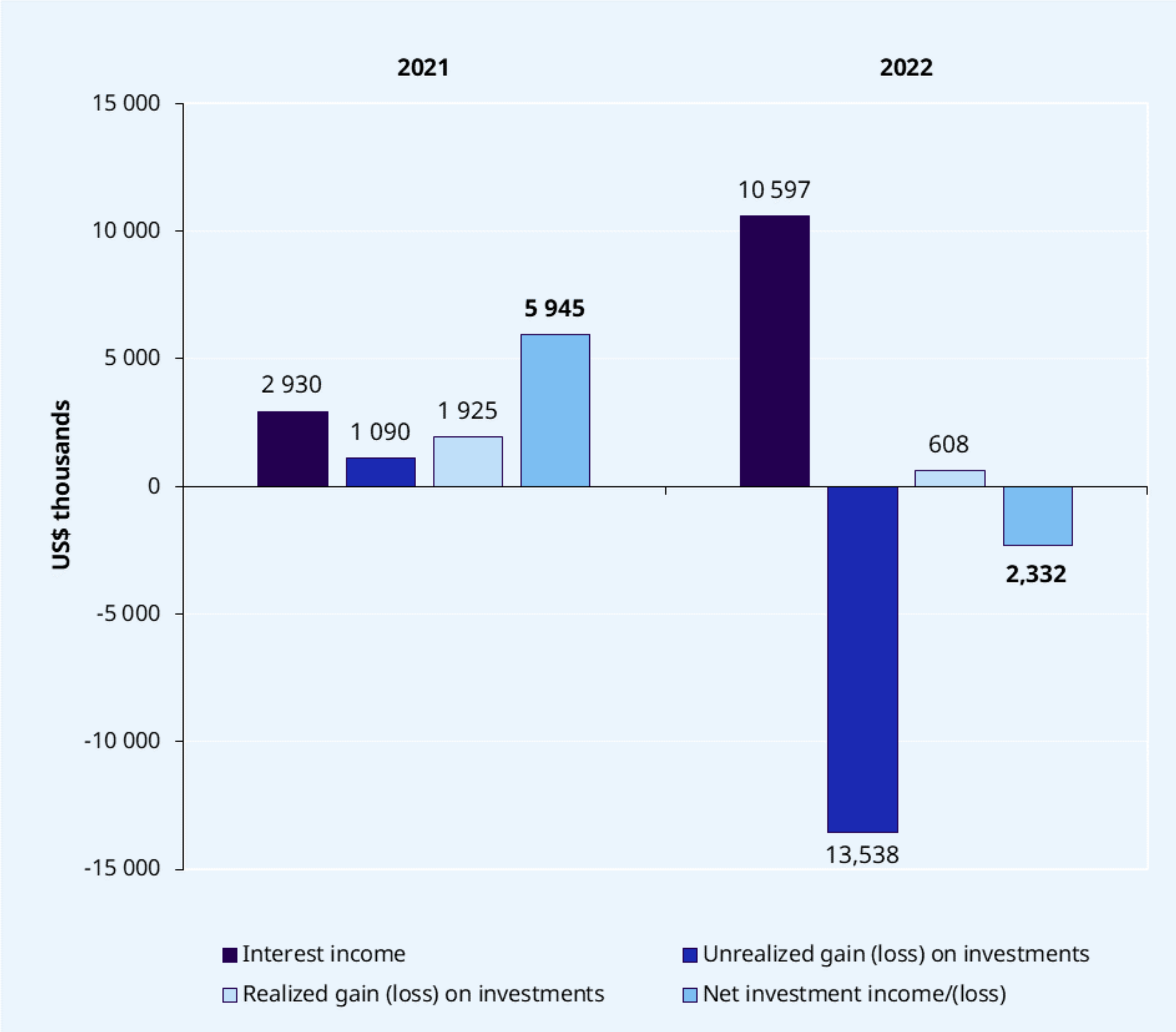
13. Revenue from assessed contributions decreased by US$35.22 million compared to 2021. Under IPSAS, the revenue for contributions from Member States assessed in Swiss francs is recognized at the beginning of each financial year and is impacted by fluctuations in amounts assessed as well as currency rates between the Swiss franc and the US dollar. Assessed contributions revenue is presented in the financial statements net of the change in the provision established for 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.

14. The assessed contributions in Swiss francs in 2022 decreased by CHF11.58 million, the net effect of an increased 2022–23 biennial budget in US dollars offset by a decrease in the budgetary biennial rate of exchange for assessment from 1.00 to 0.90 Swiss francs to the US dollar. Combined with exchange rate fluctuation between the years, this resulted in an overall reduction to the gross revenue recognized of US$28.31 million. The change in provision in 2022 was US$6.91 million higher than the prior year, resulting in the additional decrease to the overall revenue.

15. Other revenue includes revenue from staff and retiree contributions to the SHIF, sales and royalties, net investment income/(loss) and other miscellaneous revenue. The overall decrease in this category of US$10.14 million is primarily due to a decrease in investment income of US$8.28 million compared to 2021, in line with ongoing activity and uncertainty in the financial markets.

16. In 2022, the return on investments was impacted by market fluctuations resulting from tightening of monetary policies, slowdown in economic growth and increased geopolitical risks. This decrease in investment income from US$5.95 million in 2021 to a US$2.33 million loss in 2022 is due largely to the negative result (unrealized loss) on investment portfolios mitigated by increasing interest income on short-term deposits as presented in the following figure:

▶ Figure 3. Components of net investment income/(loss), two-year comparison



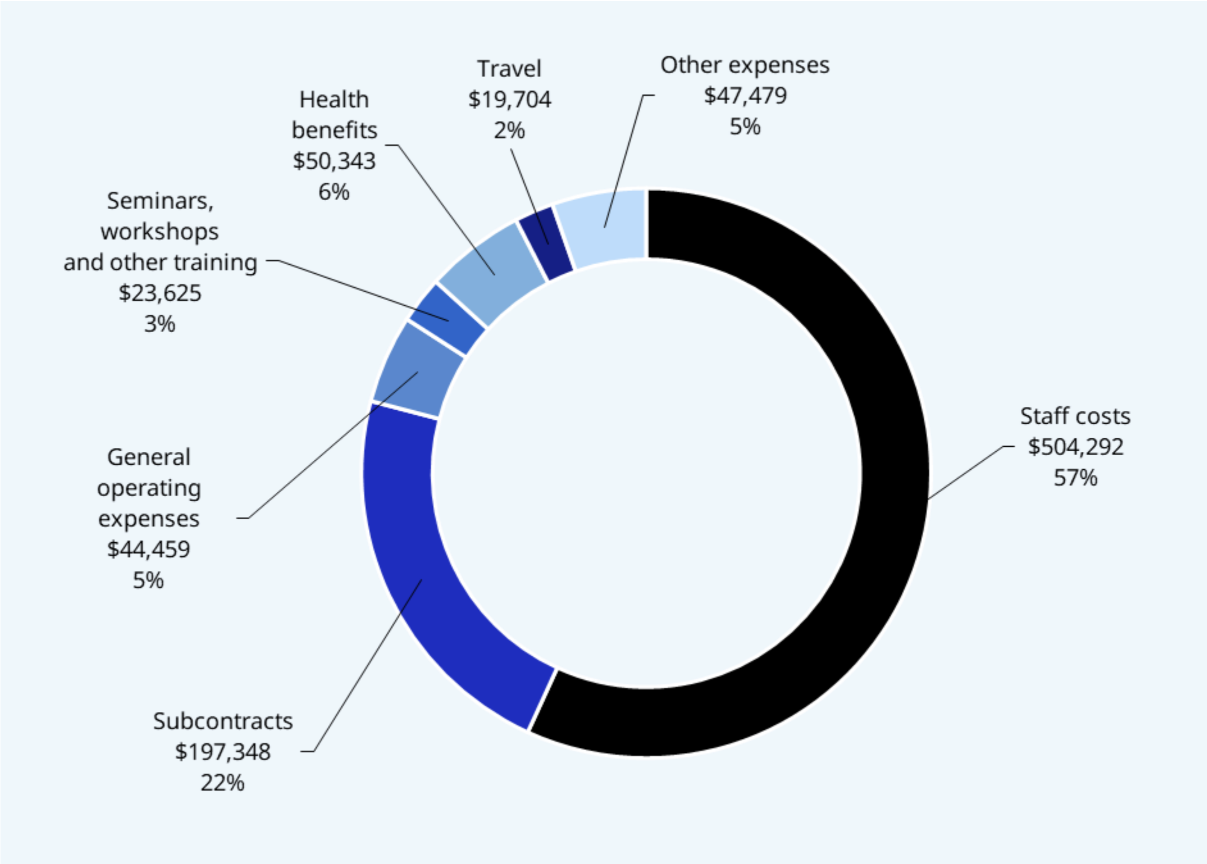
17. 2022 was a year of unprecedented significant negative performance in the fixed income and bond markets due to central banks rapidly increasing rates to combat inflation. A significant result of this was the cessation of negative interest rates for Swiss francs in 2022. This market intervention impacted all classes of the bond markets from government bonds to corporate and emerging market financial securities. The investment portfolios, although well diversified, were negatively impacted as they had a significant allocation to the usually less volatile fixed income and bonds asset classes. The impact of this negative market performance was mitigated not only by diversification in the portfolios, but also by increases in income from short-term deposits.

18. Training services revenue for the Turin Centre has increased by US$1.48 million as compared to 2021. Additional details on the Turin Centre results are provided in the "Operational activities" section of this report.

Expenses

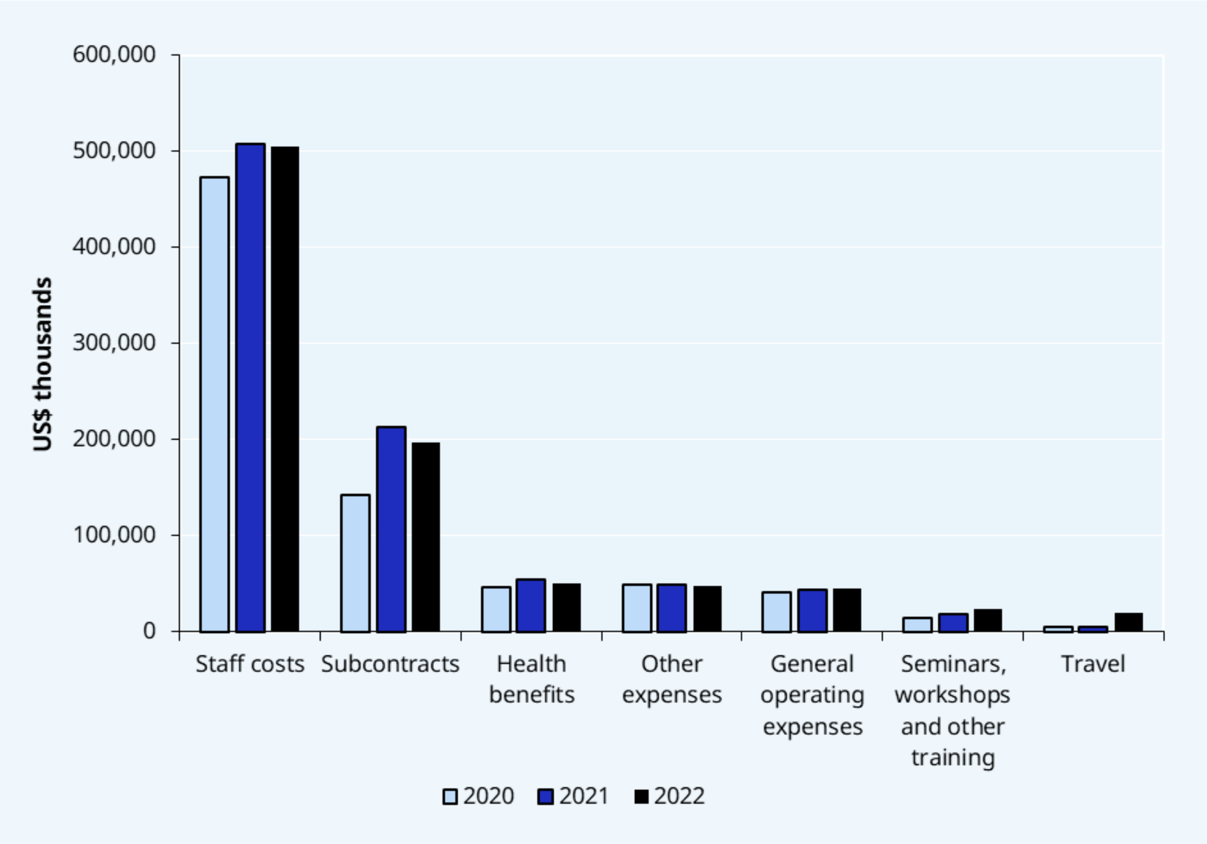
19. Expenses in 2022 totalled US$887.25 million (US$888.69 million in 2021) and were distributed as follows:

▶ **Figure 4. Expenses in 2022** (US$ thousands)



20. The two most significant categories of expenses for the Organization were staff costs (salaries and related benefits) and subcontracts representing a combined 79 per cent of total expenses. Figure 5 below provides a three-year comparison of expenses by category:

▶ Figure 5. Expenses, three-year comparison



21. The overall expenditure decreased slightly by US$1.43 million in 2022, a change of 0.2 per cent as compared to 2021.

22. By type of expenditure, the most significant decrease was experienced in subcontracting by US$15.15 million, primarily in regular budget. This was offset by increases in travel expenses by US$14.68 million and seminars and workshops by US$5.69 million. Overall, the staff costs remained stable as compared to the previous year.

Foreign exchange gains/losses

23. In 2022, the net loss on foreign exchange of US$12.23 million consisted of US$4.77 million unrealized losses from the revaluation of assets and liabilities held in currencies other than the US dollar and US$7.46 million net realized exchange losses.

24. The net losses on foreign exchange are mainly due to the weakening of the Swiss franc against the US dollar over the year, which amounted to some 0.9 per cent. The losses were generated mainly by assessed contributions receivable which are due in Swiss francs as well as cash and investments held in Swiss francs while the gains on liabilities denominated in Swiss francs only partially offset these losses.

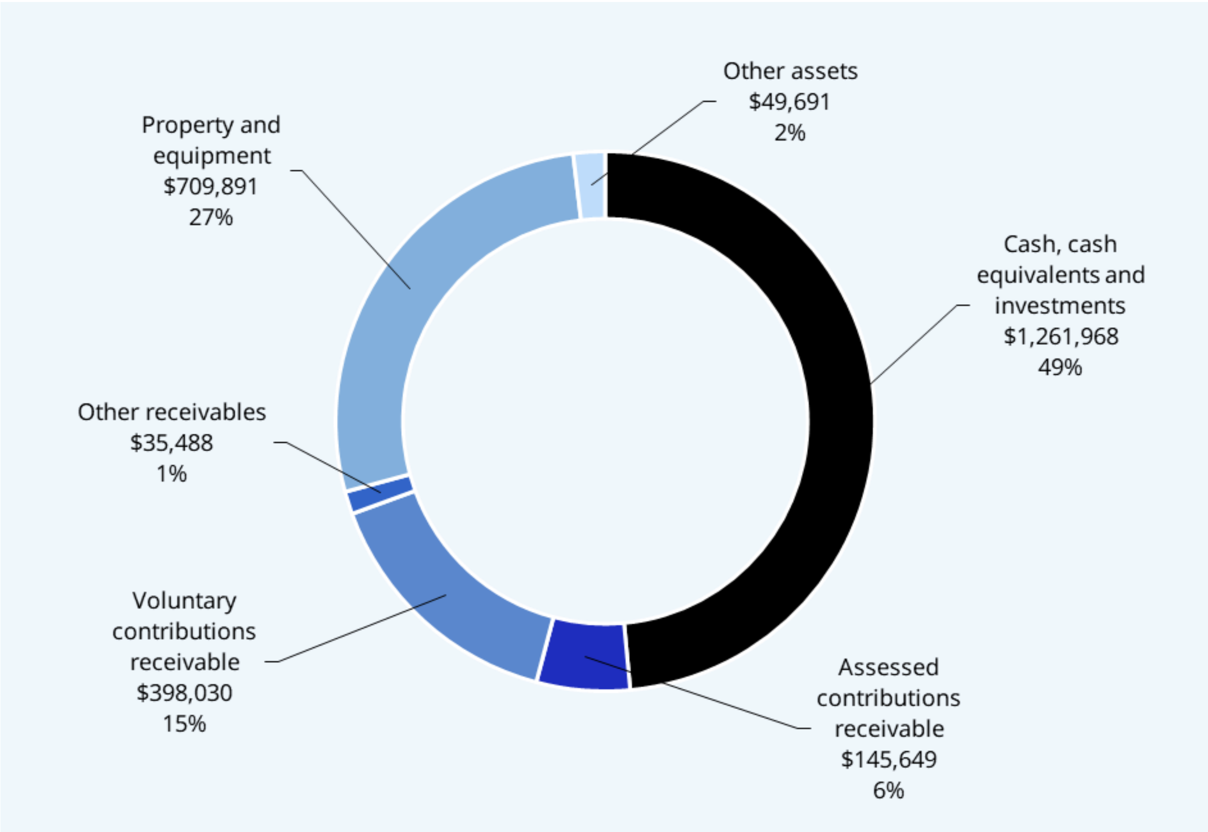
25. In accordance with the Financial Regulations and decisions of the International Labour Conference, exchange movements relating to the regular budget are managed through the net premium account, netting gains and losses and providing protection to Member States. They are not recorded as a revenue or expense item in statement V but are accumulated in the net premium account that is returned to the Member States at the end of each biennium (see note 16 to the financial statements).

Financial position

Assets

26. Assets as at 31 December 2022 totalled US$2,600.72 million, a decrease of US$21.11 million over the total at 31 December 2021 of US$2,621.83 million, and were categorized as follows:

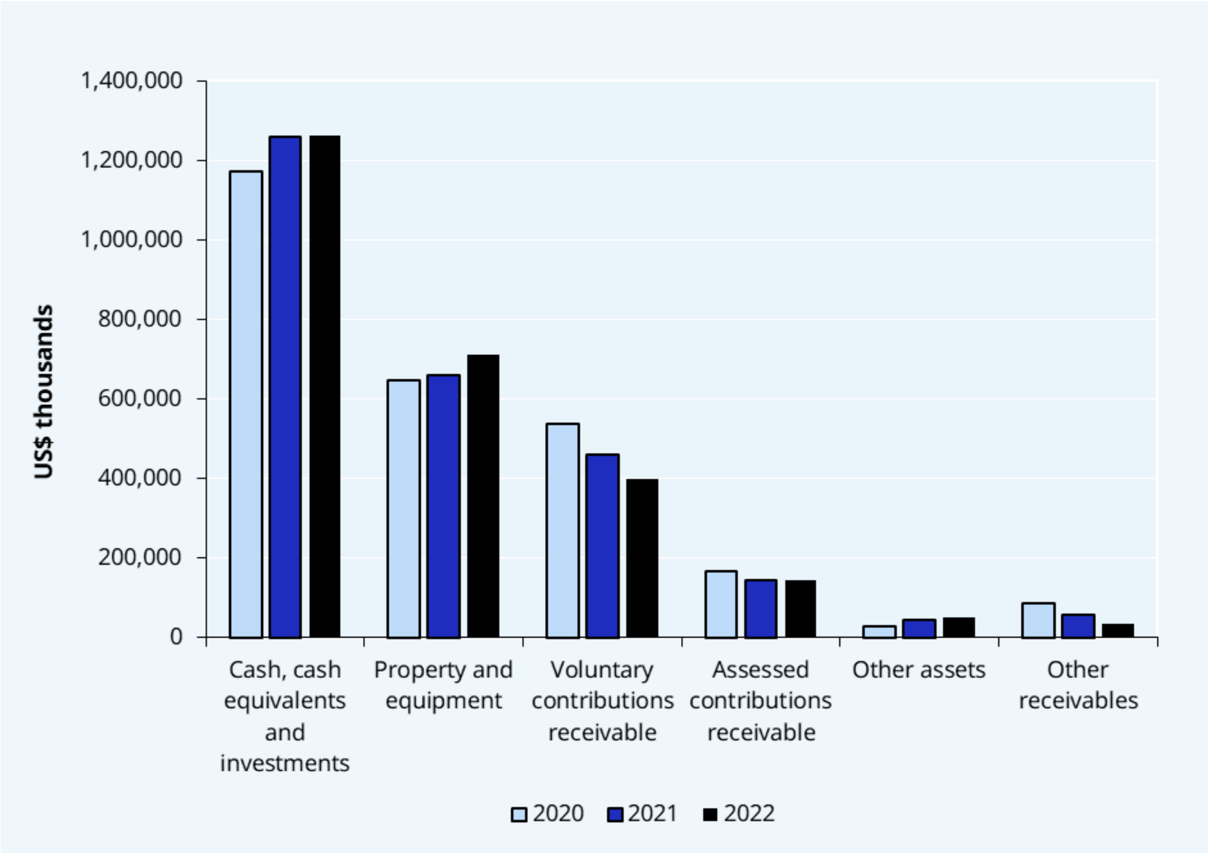
▶ Figure 6. Assets (US$ thousands)



27. Cash, cash equivalents, and investments totalling US$1,261.97 million (US$1,259.48 million as at 31 December 2021) were the largest component, representing 49 per cent of the total assets as at 31 December 2022. Of this amount, US$514.32 million (US$508.85 million at 31 December 2021) corresponded to funds held on behalf of donors for development cooperation projects. The other significant asset categories were property and equipment, totalling US$709.89 million or 27 per cent, and amounts receivable through assessed and voluntary contribution revenues, combined totalling US$543.68 million or 21 per cent.

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

▶ **Figure 7. Assets, three-year comparison**



Cash, cash equivalents and investments

29. Cash, cash equivalents and investments balances remained at a comparable level to the previous year. The investments in unit funds and bonds in the investment portfolios are held in highly rated assets, in line with the Organization's investment policy that has the primary objective of preservation of capital. The ILO's cash deposits and investments are widely spread in order to avoid an over-concentration of funds. The ILO continues to actively monitor all credit ratings for its cash and investment holdings and investment counterparties to enable it to act promptly should action be required.

Property and equipment

30. Property and equipment is mainly composed of land and buildings with a combined market value of US$695.58 million as at 31 December 2022, showing an increase of US$47.80 million over the prior year. Market value is a point-in-time estimate calculated by an independent valuer in accordance with international valuation standards.

31. The total value of land increased by US$26.40 million, mainly due to the increase in market value of the land in Geneva. This increase continues to reflect the evolution of the prices for property where the land plots are situated driven by increased developer interest. Under these conditions, the increase in the market value of the land in Geneva amounted to US$28.80 million, offset by foreign currency losses of US$2.81 million due to the devaluation of the Swiss franc against the

US dollar. The total market value of land in field locations increased by US$0.41 million compared to 2021.

32. The total value of buildings increased by US$21.39 million, also due primarily to the increased market value of the headquarters building in Geneva through additional capital investments and market changes. The result was an overall increase in the market value of buildings by US$24.15 million, offset by US$2.76 million foreign currency losses mostly due to the devaluation of the Swiss franc against the US dollar.

33. The remainder of this category is made up of leasehold improvements, mainly at the Turin Centre, and capitalized office fixtures and equipment assets.

Voluntary contributions receivable

34. Voluntary contributions receivable from donors are amounts supported by enforceable agreements that are subject to specific performance conditions; accordingly, these amounts are also treated as a deferred revenue liability until such performance conditions have been met.

35. Higher levels of funds received under donor agreements resulted in increased voluntary contribution resource mobilization and a corresponding decrease in the amounts receivable by US$52.66 million compared to the prior year. The Turin Centre also had a decrease in accounts receivable relating to agreements for training and advisory services held at the end of the year amounting to US$7.99 million. This resulted in an overall combined decrease of the voluntary contributions receivable by US$60.65 million to US$398.03 million, net of future year discounting effects. There have been no impairments of voluntary contribution receivables during this period. Additional details are provided in the "Operational activities" section of this report.

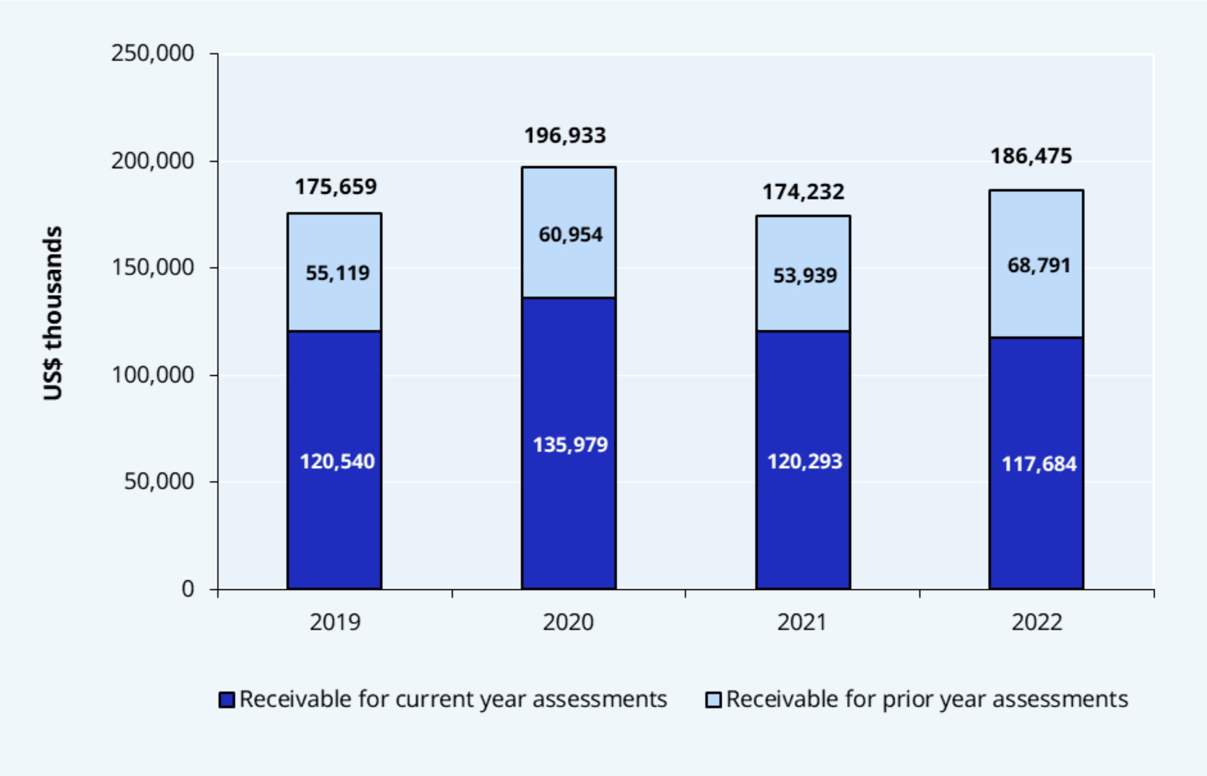
Assessed contributions receivable

36. Member State contributions are assessed, and outstanding receivables are recorded, in Swiss francs, converted to US dollars for presentation in the financial statements. In 2022, the level of gross assessed contributions receivable increased by US$12.24 million to US$186.48 million resulting from a growth in the Swiss francs receivable balance of CHF12.69 million combined with an offsetting decrease due to US dollar exchange rate fluctuation.

37. While the receivable balance has increased in 2022 compared to 2021, it remains at a similar level to 2019 and 2020 despite normal yearly variations due to different timing of collections from the larger contributors.

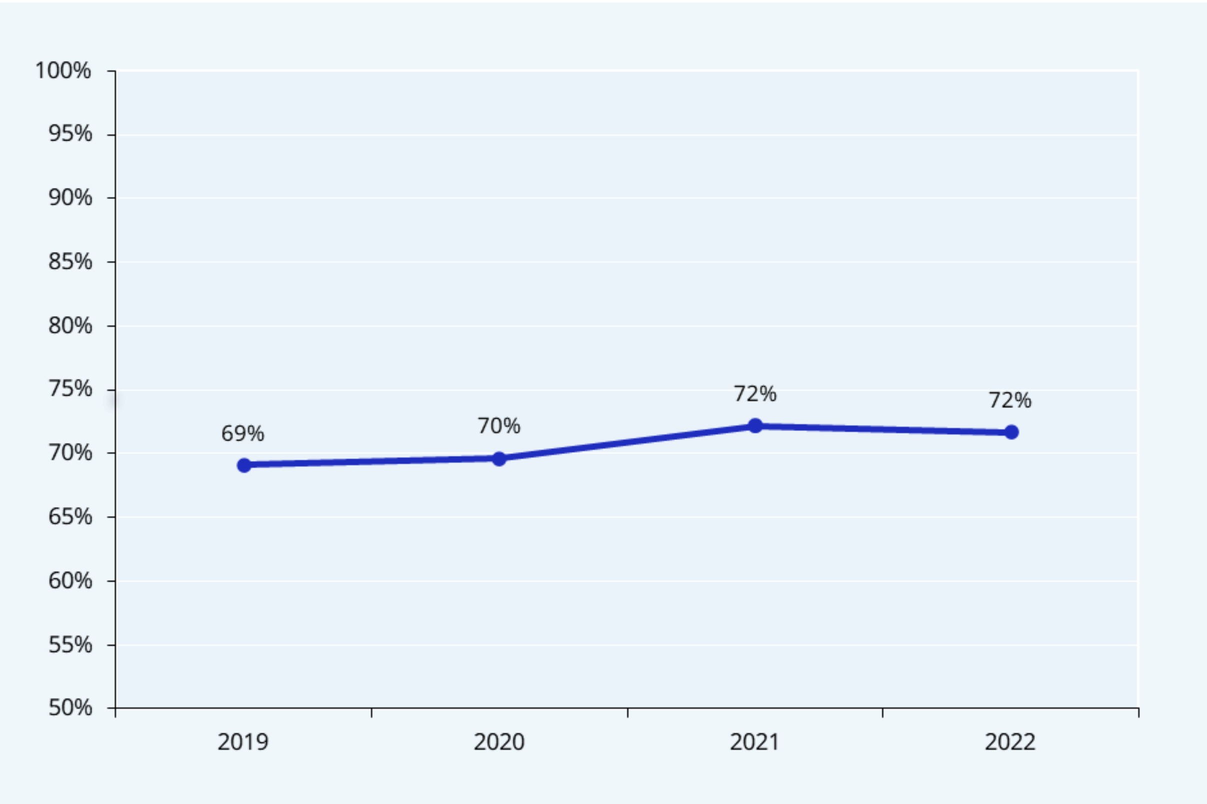
38. Figure 8 below summarizes the gross assessed contributions receivable balances and their components at the end of each of the last four years, before provision and discounting of long-term financial arrangements:

▶ Figure 8. Gross assessed contributions receivable



39. The trend in the collection rate in Swiss francs for current year assessed contributions for the same years is reflected in figure 9 below:

▶ Figure 9. Assessed contributions collection rate (in the year of assessment)



40. The 2022 collection rate in Swiss francs of 72 per cent for current year receivables has stayed consistent with the prior year and, combined with slightly lower assessed contributions, has resulted in the decrease in current year assessments receivable as reflected above in figure 7.

41. The overall provision for contributions from Member States that have lost their right to vote has increased by US$9.62 million. More detailed information on assessed contributions can be found in note 29 and note 30 to the financial statements.

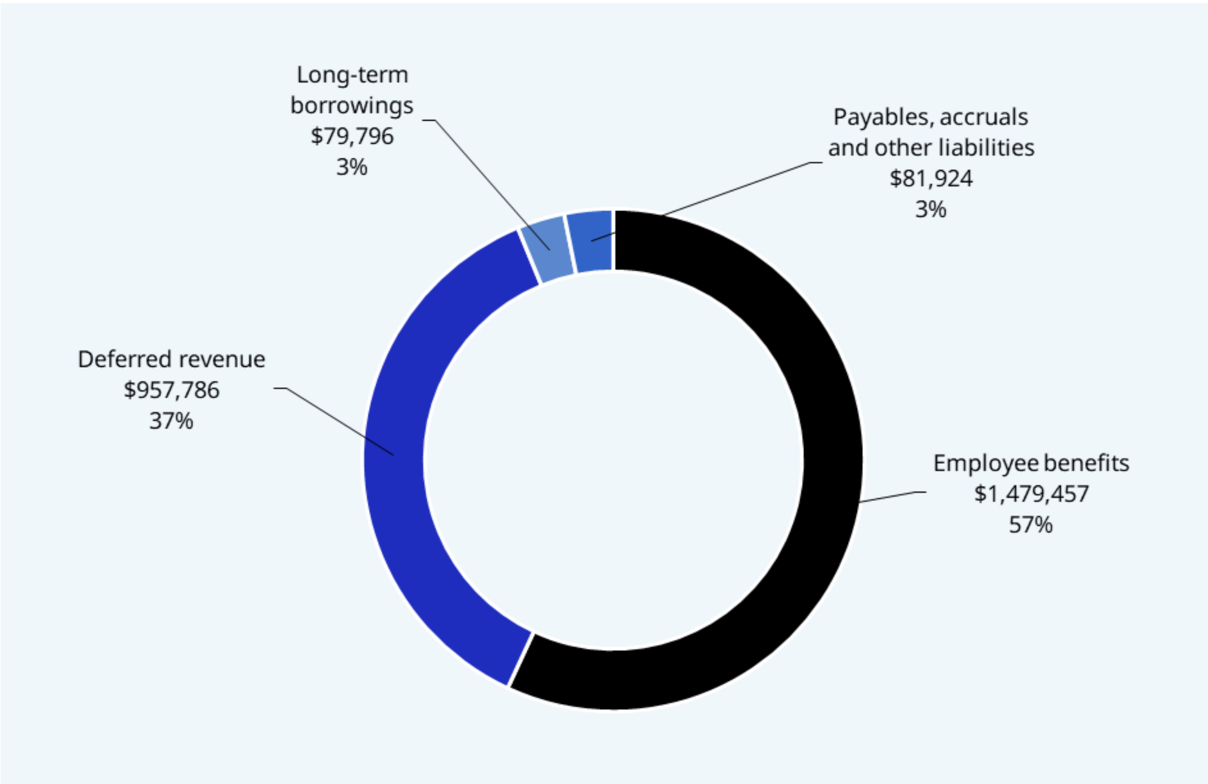
Other receivables and current assets

42. The decrease in other receivables by US$21.86 million is mainly related to the collection of the third instalment (CHF25.00 million) from the sale of the vacant plot of land in 2021, offset by an increase in accrued interest and investment income of US$5.54 million. Other current assets increased by US$4.85 million primarily due to an increase in prepaid expenses of US$4.79 million.

Liabilities

43. Liabilities as at 31 December 2022 totalled US$2,598.96 million, a decrease of US$726.65 million over the total at 31 December 2021 of US$3,325.61 million, and were categorized as follows:

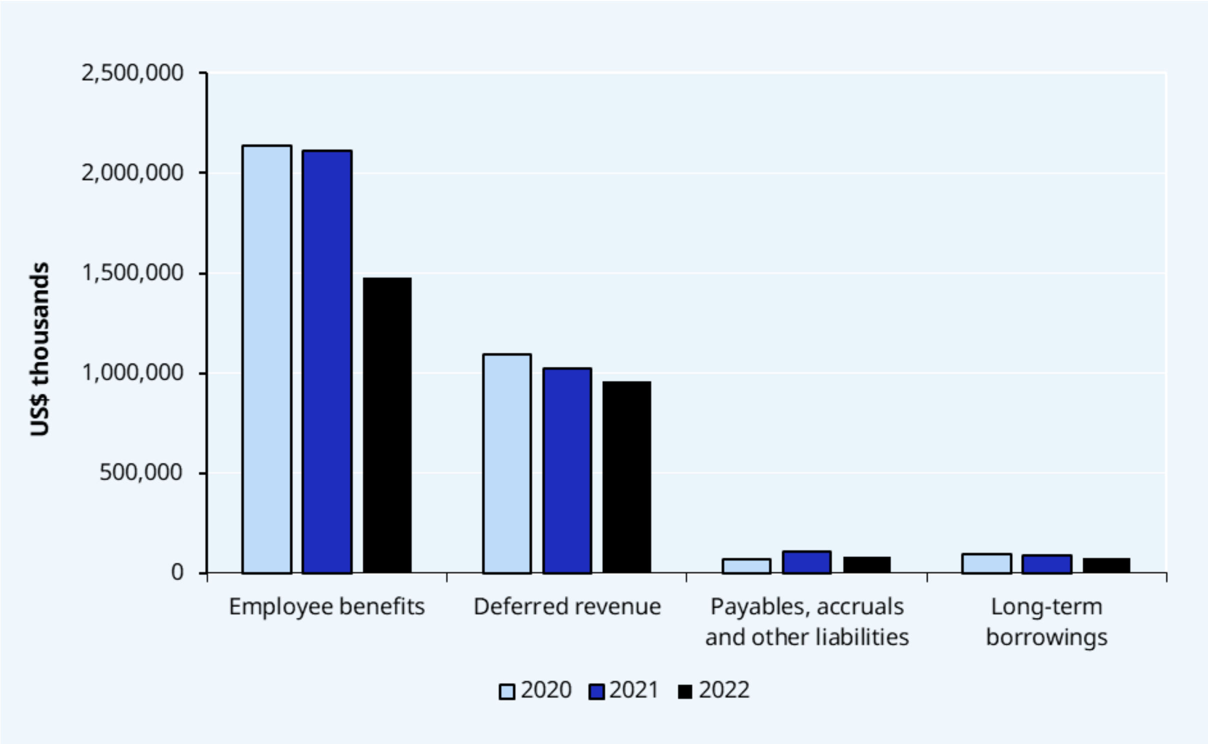
▶ **Figure 10. Liabilities** (US$ thousands)



44. The most significant liabilities of the Organization were the future employee benefits accrued by staff members and retirees, representing 57 per cent of the total liabilities as at 31 December 2022. Deferred revenue was another significant liability component and primarily relates to voluntary contributions received and receivable for both the ILO and Turin Centre activities, for which performance obligations have not yet been achieved. The balance of the Organization's liabilities is made up of long-term borrowings and various operational payable and accrual amounts.

45. Figure 11 below provides a three-year comparison by liability category:

▶ Figure 11. Liabilities, three-year comparison



Employee benefits

After-service health insurance (ASHI)

46. The ASHI liability at US$1,399.12 million, accounts for 95 per cent of the total employee benefits liability and represents the estimated cost of the employer's share of future healthcare premia in respect of all current retirees, as well as all active staff members with projected eligibility for ASHI in both the ILO and the Turin Centre. It is a point-in-time estimate calculated by an independent actuary taking into consideration the current discount rates, trends in healthcare 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.

47. The ASHI liability decreased by US$623.83 million in 2022 as a result of net actuarial gains of US$693.89 million offset by the annual current service and interest costs of US$70.06 million as detailed below:

Actuarial (gains)/losses (US$ thousands)	**2022**	**2021**
(Gain)/loss due to experience	**(50 021)**	**58 340**
Financial assumption changes:		
(Gain)/loss due to change in discount rate	(804 422)	(106 867)
(Gain)/loss due to change in future increase in medical cost trend	109 572	(43 991)
(Gain)/loss due to change in per capita medical claims cost	31 080	–
(Gain)/loss to change in future increase in administration cost	(920)	380
(Gain)/loss to change in general inflation	760	–
Total (gains)/losses due to financial assumption changes	**(663 930)**	**(150 478)**
Demographic assumption changes:		
(Gain)/loss due to change in probability of marriage at retirement	12 778	–
(Gain)/loss due to change in pre-retirement withdrawal rates	5 482	–
(Gain)/loss due to change in age differences between spouses	1 805	–
Total (gains)/losses due to demographic assumption changes	**20 065**	**–**
Total actuarial (gains)/losses recognized in net assets	**(693 886)**	**(92 138)**
Current service cost	80 034	86 813
Interest cost	16 202	11 813
Net retiree benefits paid	(26 179)	(29 672)
Net ASHI expense recognized in the statement of financial performance	**70 057**	**68 954**
Total (decrease)/increase in ASHI liability	**(623 829)**	**(23 184)**

48. The most important financial assumption change in 2022 was the increase in the discount rate as markets reacted to central banks' responses to combat high inflation due to supply chain issues coming out of the COVID-19 pandemic, and energy price fluctuations. As the liability is calculated as the present value of expected future cash flows for each of the major currencies in which ASHI benefits are paid, the resulting obligation is highly sensitive to fluctuations in market yields that are the basis of these discount rates used in the valuation each year. As the discount rate yield curves are already showing decreases in the long-term duration, it is anticipated that much of the current year actuarial gains will reverse in the future.

49. Key medical cost assumptions also changed in 2022, which resulted in actuarial losses. These included the assumptions for medical cost inflation over time and changes in per capita medical claims cost. The impact on the valuation reflects the cumulative increase in medical costs over time and market projections for the future.

50. Based on behavioural changes in the population of insured members over time, certain demographic actuarial assumptions were also updated this year that resulted in an actuarial loss of US$20.07 million. Other assumptions were updated during the year following the methodology agreed upon through the harmonized approach among UN system organizations, having only minor effects on the overall valuation.

51. Current service and interest costs are annual expenses representing the projected benefits earned by plan participants and the interest costs attributable to the future benefit obligation during the current year.

52. The ASHI liability is considered as unfunded. However, an amount of US$62.74 million is available in a SHIF Guarantee Fund to cover future short-term liabilities of the SHIF. In addition an amount of US$29.84 million has been accumulated to partially fund the ASHI liability in respect of the staff of development cooperation projects.

53. 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. Member States have preferred to maintain a pay-as-you-go basis to meet the obligations of this liability rather than including a provision in the programme and budget to accumulate a reserve aimed at limiting the growth in the ILO's unfunded ASHI liability.

Repatriation and end-of-service entitlements

54. The valuation of repatriation and end-of-service liabilities is influenced by many of the same actuarial assumptions that contributed to the changes in the ASHI liability, the most significant being discount rates and inflationary assumptions. These decreases were augmented by additional actuarial gains due to an increase in the observed forfeiture rate for ILO repatriation grant entitlements when employees end their service with the Organization without repatriating to their home country.

55. In accordance with IPSAS 39 – Employee benefits, no plan assets have been offset against the liability; however, an amount of US$51.97 million has been accumulated by the ILO in its Terminal Benefits Fund to fund future benefits.

56. The ILO liability also includes the future benefits attributable to staff of the Turin Centre for repatriation grants and end-of-service benefits, which are payable in euro and therefore subject to foreign exchange rate fluctuation. While the liability for these benefits stands at €8.61 million at the end of the year, it is funded by the Turin Centre currently at a level of €5.30 million, which includes a contribution of €1.00 million in 2022 funded from the overall savings at the Centre.

Deferred revenue

57. The amounts recognized as deferred revenue liabilities related to development cooperation activities under IPSAS are impacted by the timing differences between signing of donor agreements, receipt of funds from donors, and programming of the performance obligations by the development cooperation projects. The decrease of US$63.22 million in deferred revenue is primarily due to the decreases in voluntary contributions receivable for signed agreements and Turin Centre agreements for training and advisory services at year-end described in the voluntary contributions receivable section above. These receivable amounts are offset by a liability until performance obligations are met, which explains the corresponding movement between these accounts. The details on deferred revenue are provided in note 13 to the financial statements.

Long-term borrowings

58. Borrowings consist of two loans in Swiss francs made to the ILO from the Foundation for Buildings for International Organizations for the construction and the subsequent renovation of the ILO's headquarters building. Repayment of the building renovation loan began in 2021 after being fully drawn down in the prior year. The overall net decrease in borrowings in 2022 is as a result of loan repayments of US$6.07 million augmented by a currency revaluation gain, net of the change in fair value discount of US$0.90 million.

Operational activities

Regular budget

59. The International Labour Conference, at its 109th Session (June 2021), approved an expenditure budget for the 2022–23 financial period amounting to US$852.76 million and an income budget for the period of the same amount, which at the budget rate of exchange for the period of CHF0.90 to the US dollar, resulted in total assessed contributions of CHF767.48 million.

60. The overall budgetary results for the first 12 months of the 2022–23 financial period are summarized in statement V-A with the details of contributions paid by Member States shown in note 30 to the financial statements.

61. The table below shows the expenditure and budget utilization percentages for the current and previous years:

▶ **Variance analysis by strategic outcome for 2020–22** (in US$ thousands)

	2022 Budget[1]	2022 Actual	2022 Delivery	2021 Budget	2021 Actual	2021 Delivery	2020 Budget	2020 Actual	2020 Delivery
Part I – Ordinary budget									
A. Policymaking organs	27 422	25 217	92%	25 138	21 203	84%	25 138	11 380	45%
B. Policy outcomes	339 334	302 602	89%	312 016	318 005	102%	313 109	279 535	89%
C. Management services	32 962	29 789	90%	30 821	31 901	104%	30 821	28 707	93%
D. Other budgetary provisions	23 213	22 862	98%	22 297	22 046	99%	21 205	21 456	101%
Adjustment for staff turnover	(3 452)	–	0%	(3 153)	–	0%	(3 154)	–	0%
Total Part I	**419 479**	**380 470**	**91%**	**387 119**	**393 155**	**102%**	**387 119**	**341 078**	**88%**
Part II – Unforeseen expenditure	438	–	0%	437	–	0%	438	–	0%
Part IV – Institutional investments and extraordinary items	6 463	7 955	123%	7 764	6 818	88%	7 763	8 709	112%
Total Parts I, II and IV	**426 380**	**388 425**	**91%**	**395 320**	**399 973**	**101%**	**395 320**	**349 787**	**88%**

[1] Budget represents one half of the biennial budget adopted by the International Labour Conference

62. The results for the first year of the 2022–23 biennium should normally be compared with those of 2020, as the ILO normally utilizes less than one half of the biennial budget since activities are often planned and programmed in the first year for delivery across the whole biennium. The year 2020, however, saw direct budgetary impacts from the constraints of the pandemic, specifically impacting policymaking organs under Part I of the budget as most costs related to official meeting attendance were avoided. Reversal of these impacts has started in 2022, though a slightly slower recovery has been experienced through the other areas of the ordinary budget.

63. Although regular budget expenditure has decreased over the prior year, compared against an increased overall budget, the actual budgetary delivery rate of 91 per cent in 2022 is comparable to years prior to the pandemic impact (for example, 95 per cent in 2018 as the first year of the 2018–19 biennium)

64. The resulting surplus for 2022 at the budgetary rate of exchange amounting to US$37.96 million is reported in statement V-A for regular budget activities. Following revaluations, adjustments in respect of arrears of contributions received and reimbursement of previous deficit financing, the final deficit for budgetary purposes at the end of the year was US$0.34 million. This deficit was financed in accordance with the Financial Regulations by the use of the Working Capital Fund, which was reimbursed from the collection of arrears of contributions at the beginning of 2023.

65. 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 more detail in note 22 to the financial statements and in the appendix.

Turin Centre

66. While the Turin Centre continued to hold its training activities mostly using online modalities, the year also continued the trend of significant growth in the level of enrolments of participants to its training activities, and its efforts to further increase its non-training services to constituents. The overall number of enrolments in its activities in 2022 exceeded targets and increased by more than 34 per cent. The number of activities, while being slightly lower than in 2021, had higher outreach and contributed to the positive results for the year.

67. The Centre saw in its first year of the biennium, a level of overall revenue nearly equal to that of the second year of the previous biennium. With increased revenue, direct expenditure related to these activities also increased, specifically for other costs related to training activities and travel.

68. In 2022, the Centre resumed its recruitment process to fill vacant positions while temporarily retaining short-term and time-based staff until new candidates came on board. As part of the restructuring of the Centre to support the new business model, the Centre negotiated agreed termination packages with interested staff and a total of €0.26 million was absorbed within the savings during the year.

Voluntary contribution activities

69. Voluntary contribution activities include development cooperation projects and Regular Budget Supplementary Account (RBSA) projects, as well as gifts and grants. Total expenditure increased by US$26.84 million from US$375.40 million in 2021 to US$402.24 million in 2022, showing that the actual delivery measured by expenditure was higher by 7 per cent in 2022. Due to the large amount of funding approvals made in the previous biennium materializing in 2022, disbursements increased and the level of voluntary contribution activities expanded, which increased the revenue recognized during the year.

Subsidiary funds

70. The SHIF is a self-insured health insurance programme for active staff, retirees and dependants, which is maintained by the ILO. This programme is financed through contributions from insured persons and the ILO. The statement of financial performance reports the contributions received from insured persons as revenue and reports as expense the amount reimbursed for medical claims under the programme.

71. In 2022 the SHIF had a technical surplus with contributions exceeding benefit payments by US$1.40 million (US$1.83 million deficit in 2021), and a net operating surplus of US$1.71 million (US$0.96 million deficit in 2021) after accounting for decreased unsettled claims at year-end, a provision for advances, foreign exchange gains and losses, and sundry expenses. Net investment and currency revaluation losses of US$6.29 million (US$2.92 million loss in 2021) resulted in an overall deficit for the SHIF of US$4.58 million in 2022 (US$3.87 million deficit in 2021).

72. Other subsidiary fund activity is largely related to movements in employee benefit liabilities, land and building assets, and working capital funds. Information on the net assets and annual results for all subsidiary funds of the ILO is included in the appendix.

2. Statement of internal control for the year ended 31 December 2022

Scope of responsibility

1. As Director-General of the International Labour Office (ILO), in accordance with the responsibility assigned to me by the ILO Constitution, the Governing Body, and the Financial Regulations, I have the responsibility and accountability for a sound system of internal control. In particular, article 30 of the Financial Regulations requires that I establish and maintain internal controls and ensure:

- effective financial administration and the exercise of economy; and
- effective custody of the physical assets of the Organization.

The purpose of the system of internal control

2. Internal control systems provide reasonable assurance regarding the achievement of objectives, compliance with regulations and policies, and reliable financial reporting. The ILO's Governing Body, the Director-General, the Treasurer and Financial Comptroller, senior management, and other significant personnel all play important parts in making this work effectively. The implementation of internal control is effected through the policies, procedures and operational processes applied at all levels, designed to identify and manage – rather than eliminate – the risks to these objectives.

3. My present statement applies for the year ended 31 December 2022, the majority of which was under the leadership of my predecessor. It also considers any relevant events up to the date of the approval of the Organization's consolidated 2022 financial statements.

The ILO's operating environment

4. The ILO operates in a global environment with a physical presence in over 140 locations and a total of 3,600+ staff members. The diverse operating locations, the unique tripartite structure, the engagement with multiple funding and delivery partners, and the diverse workforce all present the ILO with opportunities and potential risks.

5. Following my election as the 11th Director-General in March 2022, I established a Transition Team which was mandated to facilitate the execution of my responsibilities as the new Director-General upon taking office by identifying and reviewing immediate and longer-term priority issues for the ILO. The Transition Team held consultations with a broad spectrum of interlocutors and open conversations with ILO officials, considered incoming suggestions and position papers, and conducted a desk review of the relevant documents, which resulted in the production of numerous concept notes covering the areas of governance, tripartism and standards; Employment, social protection, job quality and just transitions; and management and Office structure. In addition, it worked closely with the Strategic Programming and Management Department on my Programme Guidance Letter for the preparation of the Programme and Budget proposals for 2024–25.

6. Since taking office in October 2022, I have updated the Office's organizational structure with the aim of effectively supporting the realization of the vision I presented during my campaign. I submitted to the Governing Body in November 2022 and March 2023 the preview and full proposals for the Programme and Budget for the 2024–25 biennium, as well as a proposal to forge a Global Coalition for Social Justice.

7. Against this background and within the overall operational framework of the Organization, ILO managers of departments and offices in headquarters, regional offices, decent work teams and country offices are required to review and monitor on an ongoing basis the exposure to all risks relating to their functions and activities, including those at the global level such as post-pandemic recovery, geopolitical conflict, and the associated food and energy crises, etc. They must continue to maintain a high level of internal control while adapting to the changes in working methods brought about by the pandemic and ensuring efficient and effective delivery of the programme and project deliverables.

The ILO's risk management and internal control frameworks

8. The ILO's risk management framework, updated since 2021, contains the following features:

- the Senior Management Team providing leadership and direction for embedding risk management in the ILO's ways of working, monitoring on a regular basis the Strategic Risk Register and directing action as required to address issues;
- the alignment of the risk management framework to the Three Lines Model, in line with the ILO's Internal Control Framework and the model for management control across the UN system;
- well-defined risk escalation processes for both strategic and operational risks, allowing for a top-down/bottom-up flow of risk information;
- definitions of risk appetite and risk tolerance with specific conditions; and
- a six-stage risk management process to plan, identify, evaluate, respond to, monitor and report risks, with detailed guidelines and tools provided in the risk management manual.

9. The key elements of the ILO's Internal Control Framework are as follows:

- Mapping of the ILO's existing rules, policies and procedures, as well as compliance monitoring tools, against a set of principles based on acknowledged best practice.
- "Three Lines of Defence" for internal controls, in line with the reference model adopted by the UN High-level Committee on Management (HLCM), providing clarification on the roles and responsibilities in the implementation of internal controls.
- Emphasis on continuous improvement, identifying the necessary mechanisms for ongoing assessment and regular reporting of the overall effectiveness of internal control to ensure an appropriate level of assurance.

Review of internal control effectiveness

10. As specified in the ILO Internal Control Framework, my review of the effectiveness of the system of internal controls is mainly informed by:

- **Internal letters of representation,** completed and signed by members of the senior management team, regional directors, departmental directors at headquarters, external office directors and selected managers of major development cooperation programmes and projects. These provide a self-assessment of the accomplishment of their responsibilities for maintaining effective internal control and risk management on a day-to-day basis. Taking into consideration the evolving operational circumstances, the questions included in these disclosures were reviewed prior to the annual reporting cycle for 2022. This exercise did not result in any material changes since the last major update was made in 2021.

- **Independent audit and evaluation reports,** issued by the Chief Internal Auditor (including investigation reports), the External Auditor, the Evaluation Office, the Ethics Officer and, as relevant, the Joint Inspection Unit.
- **Governing Body observations and guidance** on the strategic direction and internal control matters, including those contained in the reports of the Independent Oversight Advisory Committee (IOAC).

Significant internal control matters arising during the year 2022

11. The 2022 internal letters of representation were received from 331 directors and major programme and project managers. They were analysed and used as one of the key sources for providing assurance on the effective implementation of the ILO's internal controls during the year. No new control weaknesses were identified from these disclosures, though a few areas noted in past years continued to require attention. I have provided updates on the further actions taken around these topics in the sections below.

12. I have also considered the observations in the reports of internal and external auditors, the annual evaluation report, and the annual report of the IOAC to the Governing Body pertaining to the year 2022. I noted the areas of focus and observations made by these bodies in 2022, which contained reflections on good practices and lessons learned coming out of the pandemic, as well as improvements required in operational and oversight areas.

13. I also reviewed all the significant internal control matters that were highlighted by the former Director-General over the first five-year period since the introduction of the statement of internal control in 2017 and noted the consistent and robust approach taken. Taking into consideration the positive opinion provided by the IOAC on the process of preparing the statement, and based on my own observations, I have determined that the approach used so far was effective and would therefore continue to apply it in my statement for 2022.

14. Based on the considerations above, I have deemed it necessary to report the following matters in 2022 to ensure that policies and procedures remain fit-for-purpose and their operational application continues to improve.

- **ILO's cybersecurity controls to be further enhanced.** The ILO's exposure to cybersecurity risks have been increasing due to the fast track of digital transformation caused by the pandemic, the disruption and confidence erosion related to geopolitical situations, and the security threat through suppliers and vendors as part of the supply chain. In 2022, the Office was the subject of several cyberattacks, including one on a website used by an ILO project, two on IT systems managed by departments and offices outside of the main IT framework, and some targeted phishing campaigns disguised as "payment advices". In response to the report of the Joint Inspection Unit on "Cybersecurity in the United Nations system organizations", the Office engaged an independent external consultancy to review the ILO's cybersecurity framework and its resilience. Some of the recommendations from this review were integrated into the 2022 work plan, including the enhancement of vulnerability management, improvement of the risk-assessment process and the execution of a security assessment of internet of things networks. An escalation process for cybersecurity incident detection and response was developed, enhancing transparency, predictability and ownership of security incident escalation by clarifying responsibilities of the different organizational stakeholders. Additional cybersecurity improvements have been scheduled for implementation in 2023, including the development of role-based information security awareness training and enhanced communications materials to reinforce an information security awareness culture within the Office.

- **Oversight and control of implementing partnerships to be strengthened.** An implementing partner is a legally recognized non-profit-oriented entity, which provides assistance in the delivery of the ILO's substantive mandate in development cooperation programmes, projects and activities. Both internal and external auditors have recently reviewed the use of implementing partnerships as they are an important tool in the delivery of the ILO's operations. In particular they have commented on issues related to the selection procedures of the partners, the oversight of their performance, the controls in the submission and receipt of their deliverables. In 2022, a case of sexual exploitation and abuse by an employee of an implementing partner was substantiated after investigation. As such, there was a need to enhance the prospection, control and monitoring of implementing partners. In this connection, the Office developed a series of guidelines and templates to assist managers, including a step-by-step procedure on the engagement of implementing agreements. An updated version of the Office procedure was issued in November 2022 to establish a harmonized Organization-wide approach to the use of implementing partnerships and to ensure good governance, by reinforcing due diligence mechanisms within the ILO accountability framework for programme managers.
- **Policy on external collaboration contracts to be updated to "fit for purpose".** External collaboration contracts are contracts concluded with persons acting in their individual capacity to perform a specific task or set of tasks for the ILO. They are not employment contracts and remain outside the scope of the Staff Regulations. In 2019, the ILO's External Auditor conducted a review of external collaboration contracts and made several recommendations in his report to the Governing Body, including: to adopt a competitive selection process in the hiring of external collaborators, to update the policy for fees to be applied based on justification on the level of complexity of the task, to prepare detailed terms of reference as the basis for selection, and to complete an evaluation form before awarding the final payment to the external collaborator. Unlike the implementing partnerships for which the Office procedure and guidelines have been updated, the policy update for external collaboration contracts had not been made, pending the outcome of a dedicated review of this subject by the Office of Internal Audit and Oversight (IAO). I consider the clarification on the internal roles and responsibilities for managing external collaboration contracts and the update of corresponding policy and provision of tools as pertinent issues to be addressed in a timely manner and will call on the relevant units in Corporate Services to take action.

Internal control matters carried forward from previous years

15. In 2022, the Office continued to implement measures to address the internal control matters reported in the statements of the past years. Based on the feedback from the disclosures submitted by directors and other managers in the internal letters of representation, and by referring to the relevant audit, oversight and evaluation reports, I have reassessed these areas and determined that, in some areas, further work or continued monitoring are still required despite progress made, while in other areas, significant results have been achieved to address the risks initially presented. Accordingly, these issues have been listed under two categories below, and those that are no longer deemed to be significant risks will not be reported as from the next financial year, unless they resurface in the future as an area of concern.

Matters requiring further work or continued monitoring

- **Performance management compliance (2017).** In the 2022 disclosures contained in the internal letters of representation, 78 per cent of all managers reported a full compliance with the performance management cycles as of 31 December 2022, while others reported partial compliance with exceptions related to volume, competing priorities, reporting structure, backlogs created during the pandemic, and some specific performance issues under discussion between the manager and staff concerned. The latest Office-wide performance appraisal compliance information as of 11 April 2023 showed that 37 offices and departments achieved more than 80 per cent compliance of their 2022 End of Cycle appraisals, while the overall compliance rates for appraisals for 2022 End of Cycle and 2023 Beginning of Cycle stood at 78 per cent and 74 per cent respectively. I have also noted that a comprehensive framework of learning activities, targeting various audiences from managers to staff and teams, had reached more than 400 staff members and managers in 2022 and an e-learning module on the ILO's performance management framework is to be developed in 2023. While the compliance numbers represent steady improvements over the years, and training efforts continued to be made, I consider that the Office still needs to reinforce its measures to improve the performance appraisal compliance and more importantly, the culture of taking responsibility for performance. I will therefore keep this subject for monitoring and reporting in my future statements.

- **Workforce planning and skills development (2018).** In 2018, the mandatory age of separation was set to 65 and ILO officials due to retire at age 60 or 62 were offered the opportunity to continue working until this age, which resulted in an overall reduction in the number of retirements. However, this phenomenon was due to end in 2022, thus exposing the Office to increased risk of losing key skills, competencies and experience with more officials retiring. The IOAC has maintained its attention on skills development over the past few years and expected that the result of the skills mapping project would be useful in implementing the Human Resources Strategy 2022–25 and the associated learning action plan. In the Office's work plan for 2023, provisions have been made for the selection of a skills mapping tool and the development of a consolidated skills framework for the ILO's technical delivery, followed by a mapping of current skills and future skills needs. A gap analysis regarding skills, resources and their global distribution would be undertaken and strategies to address such gaps through staff development or recruitment would be developed by the end of 2023. Updates in this area will be provided in my statement for 2023 and future years as applicable.
- **The need for a strengthened ethics function to promote increased awareness on ethical conduct and the prevention of fraud and misconduct (2020).** The ethics function is an integral part of the ILO's accountability framework contributing to building a culture of integrity and respect across the Office. Since the appointment of the new full-time Ethics Officer from 1 July 2022 and thanks to the outreach efforts made, the number of ethics advice requests made by ILO officials had increased from 40 per year in 2021 to 64 over the second semester of 2022. Based on the subject areas covered in the requests for advice, the Ethics Officer has considered using focused, structural and preventive interventions, such as trainings and other promotional activities, and conflict prevention, starting with offices where a number of issues were raised. An outreach policy has been drafted and a renewed ethics survey planned in 2023, with its results to be used to guide the development of a new online training module on ethics and the update of the Principles of Conduct for Staff of the International Labour Office. With respect to the awareness-raising of the Office's policies on fraud and misconduct, a flowchart demonstrating the different processes on the reporting and investigation of alleged wrongdoings and follow-up actions on substantiated cases was made available in 2022 on both the Office's intranet and public website. An Office-wide fraud risk assessment by subject areas is currently being undertaken by the Senior Risk Officer in collaboration with the Ethics Officer. The results of this assessment will be used to develop tools to strengthen the measures for prevention and detection of fraud and misconduct. I will therefore return to this subject in 2023 and provide an update on the progress made by then.

Matters no longer deemed significant risk of internal control

- **Due diligence in the delegated procurement process and oversight on the performances of contracted parties to be further strengthened (2019).** Delegated procurement process refers to the process required to establish external collaboration contracts, implementation agreements, and grant agreements, which are types of contracts not subject to commercial procurement procedures for goods and services. They require managers to consider the specific applicability criteria and follow specially established procedures. Over the past few years, various control and performance issues were highlighted by internal and external auditors, in particular with respect to external collaboration contracts and implementation agreements. As the issues related to these two contract types and their corresponding processes are different, I have decided to list them separately in this year's statement, as referred to in paragraph 14 above. As such, I am proposing that this topic from 2019 be closed and superseded by the two separate topics, for which specific actions are to be taken to address the issues at hand.
- **Accountability and capacity for the delivery of programme/project results to be strengthened, in particular in the field offices (2021).** This topic was reported in 2021 based on observations made in the Multilateral Organisation Performance Assessment Network (MOPAN) review and by the ILO's External Auditor, highlighting weaknesses in programme and project design and management practices, the ongoing challenge to ensure appropriate field capacity, and the need to strengthen support on delivery to the field offices. In this connection, I am pleased to report that, in my Programme and Budget proposals for 2024–25, a total amount of US$18.4 million had been identified for redeployment, most of which would be used to strengthen the ILO's capacity to provide effective and relevant services and policy advice to constituents in the regions, and to strengthen technical services delivered by policy departments and the newly-established priority action programmes. As part of the ongoing monitoring of programme implementation of the current biennium, outcome-based work planning (OBW) reviews were conducted regularly and status reports issued in April and October 2022 and again in February 2023, indicating that the Office remained on track to achieve or exceed the targets set in the programme and budget. In addition, the OBW Dashboard continued to be used to support and monitor the OBW process, highlighting any delivery issues to be addressed immediately. Finally, as far as other sources of funds (Regular Budget Technical Cooperation (RBTC), Regular Budget Supplementary Account (RBSA) and Extra-budgetary Development Cooperation (XBDC)) are concerned, capacity of delivery is reflected in the significant increase of expenditure rate between October 2022 and January 2023. As it stands now, I consider that this topic no longer represents significant risk for the Office.
- **Enterprise risk management tools to be further modernized and more training on risk assessment and response methodologies to be undertaken (2021).** In 2022, the Office upgraded the risk management online platform, which provided more advanced tools for the development and formulation of risks and required responses, and presented a more transparent and timely overview of the risk map across the Organization. A template risk register for field offices was developed, which broadened the range of risks they face, improved the quality of risk assessment, and involved more staff in the management of risks. The feedback from field offices was noted as positive by the IOAC in its report to the Governing Body. A lessons-learnt exercise on both the IT platform and the field offices' risk registers will be conducted in 2023 to examine further the benefits and possible improvements. While a low take-up rate by ILO managers in the online training on risk management was noted for 2022, a reminder was sent in March 2023 to all officials at grades P5 and above, which resulted in a

200 per cent increase in the number of officials undertaking the training (from 200 at the end of 2022 to 600 in early April 2023). Going forward, the Office will keep close monitoring of the participation in the current online risk training module and will also design an updated face-to-face training course to be rolled out to risk experts in the regional offices. As such, I no longer consider this topic to be significant, but will revisit it in future periods if necessary.

- **Efficiency and effectiveness of the internal audit and oversight functions to be enhanced through strategic planning and modern working methods (2021).** This issue was highlighted by the IOAC in its report to the Governing Body in March 2022 based on the fact that the internal audit activities were significantly curtailed due to the global pandemic, and remote audit techniques were not fully developed by the IAO. In the context of the development of the IAO's strategic plan for 2021–26, the IOAC encouraged the IAO to increase its agility in adapting to the changing environment and enhancing the audit team's skills in the area of data analytics and other digital audit skills, and to continue using the long-term agreements with global consultancy firms to undertake field audit work as appropriate. In its annual report to the Governing Body in March 2023, the IOAC positively noted that the IAO's issuance of reports had improved, but remained concerned about the backlog of investigation cases and the workload of the IAO's Investigation and Inspection Unit. To address this, I proposed additional resources in my Programme and Budget proposals for 2024–25 to reinforce the IAO's capacity through the creation of a new professional position and the increase of non-staff resources. Based on the IAO's latest outputs in 2022 and the additional measures proposed, I consider that this topic no longer represents significant risk for the Office but I will stay in close contact with the Chief Internal Auditor to monitor the delivery of the audit plan and to review the investigation caseload.

Conclusion

16. Internal controls no matter how well-designed have inherent limitations, including the possibility of premeditated circumvention and therefore can provide only reasonable but not absolute assurance. The effectiveness of internal controls may vary over time due to changes of conditions beyond the Office's control. I am accordingly committed to the continuous development of the system of internal control so as to address control issues in a timely manner.

17. Based on the above I conclude that to the best of my knowledge and information, the ILO has an effective system of internal control and there were no material weaknesses identified during the year ended 31 December 2022.

(Signed) Gilbert F. Houngbo

Director-General

Geneva, 13 April 2023

▶ 3. Approval of the consolidated financial statements for the year ended 31 December 2022

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.

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.

(Signed) Adnan Chughtai Treasurer and Financial Comptroller	*(Signed)* Gilbert F. Houngbo Director-General
Geneva, 31 March 2023	Geneva, 31 March 2023

4. 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 Office

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 2022, 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 2022, 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 (ISA) and the International Standards of Supreme Audit Institutions (ISSAI). 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 2022 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 charged 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 and ISSAIs 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and ISSAIs, 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'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'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.

(Signed) Gamaliel A. Cordoba

Chairperson, Commission on Audit
Republic of the Philippines
External Auditor

Quezon City, Philippines
14 April 2023

5. Consolidated financial statements for the year ended 31 December 2022

International Labour Organization

Statement I

▶ Consolidated statement of financial position as at 31 December 2022 (US$ thousands)

	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents	4	279 626	297 815
Contributions receivable – Assessed	5	141 680	137 798
Contributions receivable – Voluntary	6	211 839	273 448
Derivative assets	7	5 384	3 441
Investments	8	656 674	594 874
Other receivables	9	35 488	35 490
Other current assets	10	40 177	35 328
		1 370 868	1 378 194
Non-current assets			
Contributions receivable – Assessed	5	3 969	5 119
Contributions receivable – Voluntary	6	186 191	185 237
Derivative assets	7	–	2 223
Investments	8	325 668	366 792
Other receivables	9	–	21 858
Property and equipment	11	709 891	659 139
Intangible assets	12	4 130	3 263
		1 229 849	1 243 631
Total assets		**2 600 717**	**2 621 825**
Liabilities			
Current liabilities			
Payables and accruals		49 247	56 575
Deferred revenue	13	771 643	836 024
Employee benefits	14	66 733	67 285
Current portion of long-term borrowings	15	6 539	6 596
Due to Member States	16	21 094	16 307
Other current liabilities	17	6 796	7 063
		922 052	989 850
Non-current liabilities			
Deferred revenue	13	186 143	184 980
Employee benefits	14	1 412 724	2 044 784
Long-term borrowings	15	73 257	80 167
Due to Member States	16	4 787	25 831
		1 676 911	2 335 762
Total liabilities		**2 598 963**	**3 325 612**
Net assets			
Reserves	18	255 778	236 145
Accumulated balances	18	(254 024)	(939 932)
Total net assets		**1 754**	**(703 787)**

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 2022
(US$ thousands)

	Note	2022	2021
Revenue			
Assessed contributions	24	409 766	444 990
Voluntary contributions	24	412 509	379 307
ITC training services	24	15 364	13 884
Staff/retiree benefit contributions		23 842	24 383
Sales and royalties		17 723	17 256
Investment income/(loss), net		(2 332)	5 945
Other income		1 685	3 476
Total revenue		**878 557**	**889 241**
Expenses			
Salaries, employee benefits and other personnel costs	19	504 292	506 918
Travel	19	19 704	5 017
Subcontracts	19	197 348	212 504
General operating expenses	19	44 459	43 274
Supplies, materials and small equipment	19	8 729	13 940
Depreciation and amortization	19	12 477	11 607
Seminars, workshops and other training	19	23 625	17 940
Staff development	19	1 461	1 674
Health benefits	19	50 343	53 820
Contributions and grants in aid	19	20 522	18 417
Finance expenses	19	2 999	3 067
Other expenses	19	1 291	508
Total expenses		**887 250**	**888 686**
Foreign exchange gains/(losses)		(12 230)	(48 841)
Net surplus (deficit)		**(20 923)**	**(48 286)**

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 2022
(US$ thousands)

	Note	Reserves	Accumulated balances	Total net assets
Balance as at 31 December 2020	18	**221 583**	**(979 387)**	**(757 804)**
Surplus (deficit) for the year 2021		4 050	(52 336)	(48 286)
Repayment of internal borrowing for financing of regular budget deficit		34 497	(34 497)	–
New internal borrowing for financing of regular budget deficit		(23 801)	23 801	–
Change of derivatives		–	26 160	26 160
Change of revaluation surplus of land and buildings		–	7 393	7 393
Actuarial gain (loss) of employee benefit liabilities		–	94 966	94 966
Transfer of liabilities due to Member States of period 2021		–	(25 089)	(25 089)
Translation difference from consolidation of ITC		(184)	(943)	(1 127)
Total 2021 movement		**14 562**	**39 455**	**54 017**
Balance as at 31 December 2021	18	**236 145**	**(939 932)**	**(703 787)**
Surplus (deficit) for the year 2022		(3 434)	(17 489)	(20 923)
Repayment of internal borrowing for financing of regular budget deficit		23 547	(23 547)	–
New internal borrowing for financing of regular budget deficit		(340)	340	–
Change of derivatives		–	227	227
Change of revaluation surplus of land and buildings		–	27 495	27 495
Actuarial gain (loss) of employee benefit liabilities		–	701 004	701 004
Transfer of liabilities due to Member States of period 2022		–	(274)	(274)
Translation difference from consolidation of ITC		(140)	(1 848)	(1 990)
Total 2022 movement		**19 633**	**685 908**	**705 541**
Balance as at 31 December 2022	18	**255 778**	**(254 024)**	**1 754**

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 2022 (US$ thousands)

	Note	2022	2021
Cash flows from operating activities			
Surplus (deficit) for the year		(20 923)	(48 286)
Non-cash movements:			
Depreciation and amortization		12 477	11 607
(Increase) decrease in contributions receivable – Assessed		(2 732)	25 175
(Increase) decrease in contributions receivable – Voluntary		60 654	88 612
(Increase) decrease in derivative instruments		507	8 019
(Increase) decrease in investment portfolios		21 687	7 396
(Increase) decrease in other receivables		(3 782)	(492)
(Increase) decrease in other assets		(4 849)	(8 739)
Increase (decrease) in payables and accruals		(7 328)	19 459
Increase (decrease) in deferred revenue		(63 217)	(85 460)
Increase (decrease) in employee benefits		68 385	71 519
Increase (decrease) in due to Member States		(16 257)	24 565
Increase (decrease) in other liabilities		(267)	1 019
Increase (decrease) in borrowings		(902)	(3 016)
Gain on disposal of assets		33	(14)
Effect of exchange rates on cash and cash equivalents		1 153	(4 251)
Transfer to liabilities due to Member States from net assets		(274)	(25 089)
Net cash flows from operating activities		**44 365**	**82 024**
Cash flows from investing activities			
Proceeds from sale of investments	8	1 138 508	1 092 521
Purchase of investments	8	(1 180 870)	(1 210 016)
Additions of property and equipment	11	(35 483)	(15 706)
Proceeds from disposals of property and equipment		25 641	28 232
Additions of intangible assets	12	(1 589)	(877)
Net cash flows from investing activities		**(53 793)**	**(105 846)**
Cash flows from financing activities			
Repayment of borrowings	15	(6 066)	(6 547)
Net cash flows from financing activities		**(6 066)**	**(6 547)**
Effect of exchange rates on cash and cash equivalents		(2 695)	5 663
Net increase (decrease) in cash and cash equivalents		**(18 189)**	**(24 706)**
Cash and cash equivalents, beginning of period	4	**297 815**	**322 521**
Cash and cash equivalents, end of period	4	**279 626**	**297 815**

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 2022 (US$ thousands)

	Original [2] and final budget	Actual	Difference [3]
Revenue			
Assessed contributions	426 380	426 380	–
Total revenue	**426 380**	**426 380**	**–**
Expenses			
Part I – Ordinary budget			
A. Policymaking organs	27 422	25 217	(2 205)
B. Policy outcomes	339 334	302 602	(36 732)
C. Management services	32 962	29 789	(3 173)
D. Other budgetary provisions	23 213	22 862	(351)
Adjustment for staff turnover [4]	(3 452)	–	3 452
Total Part I	419 479	380 470	(39 009)
Part II – Unforeseen expenditure	438	–	(438)
Part IV – Institutional investments and extraordinary items	6 463	7 955	1 492
Total expenses (Parts I, II and IV)	**426 380**	**388 425**	**(37 955)**
Surplus (deficit) at budgetary rate of exchange		**37 955**	
Revaluation of the budgetary surplus (deficit)		(946)	
Surplus (deficit) at UN operational rate of exchange [5]		**37 009**	
Surplus (deficit) resulting from the receipt of contributions in an amount higher (lower) than approved regular budget		(13 754)	
Reimbursement of 2020–21 deficit financing [6]		(23 595)	
Net surplus (deficit) [7]		**(340)**	

[1] Budget and actual information calculated at budgetary rate of exchange of US$1.00 = CHF0.90

[2] Original budget represents one half of the biennial budget adopted by the International Labour Conference.

[3] Significant differences between budget and actual are explained in the accompanying financial report on the 2022 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] 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. 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 of 31 December 2021, in accordance with article 21.1(a) of the Financial Regulations, the deficit of CHF21.778 million, was covered by the Working Capital Fund. In accordance with article 21.2(a) of the Financial Regulations, arrears of contributions received in 2022 were used to reimburse the Working Capital Fund.

[7] The deficit is temporarily covered by the Working Capital Fund pending receipt of arrears in 2023.

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 2022 (US$ thousands)

	Original and final budget [1]	Actual	Difference
Accumulated balance, beginning	1 581	1 549	(32)
Revenue			
Contribution from ILO regular budget	1 161	1 161	–
Contribution from host country and other countries in the region	300	309	9
Other contributions	125	156	31
Sales of publications and services	2	–	(2)
Miscellaneous income	8	16	8
Total revenue	**1 596**	**1 642**	**46**
Expenses			
Expenditure	1 784	1 961	177
Total expenses	**1 784**	**1 961**	**177**
Net surplus (deficit)	**(188)**	**(319)**	**(131)**
Accumulated balance, ending	**1 393**	**1 230**	**(163)**

[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 2022

	Original and final budget [1]	Actual	Difference [2]
	(in € thousands)		
Revenue			
Voluntary contributions	12 299	13 397	1 098
Earned income	14 928	19 549	4 621
Use of surplus	–	52	52
Total budget revenue	**27 227**	**32 998**	**5 771**
Expenditure			
Fixed expenditure	25 536	27 965	2 429
Institutional investments	1 200	1 200	–
Contingency	300	–	(300)
Total expenditure	**27 036**	**29 165**	**2 129**
Budget surplus (deficit) [3]	**191**	**3 833**	**3 642**
	(in US$ thousands)		
Net budget surplus (deficit) [4]	**201**	**4 038**	**3 836**

[1] Original budget represents approximately 50 per cent of approved budget for the biennium.

[2] Budget variances are explained in the accompanying financial report on the 2022 accounts.

[3] As per ITC's Financial Regulations, article 7(4).

[4] The revenue and expenditure of the ITC are consolidated using an average rate of US$1.00 = €0.9493 for the reporting period.

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

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 which consists of representatives of all the Member States, and by the Governing Body elected by the Conference. The International Labour Conference 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, extrabudgetary 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 ITC is headquartered in Turin, Italy. The ITC provides training and related services to UN agencies, governments and non-governmental organizations designed to develop human resources and improve institutional capabilities. The ITC is financed from the ILO's regular budget and development cooperation projects, from the Government of Italy and from revenues earned by providing training services. The ITC 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.

Financial period

9. 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

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

Measurement uncertainty

11. 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

12. 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 until the date the asset is available for its intended use.

Cash and cash equivalents

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

Consolidation

14. The accounts of the ITC have been consolidated into the consolidated financial statements of the ILO.

15. 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

16. 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

17. 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.

18. 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

19. 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

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

Post-employment benefits

21. 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 (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 in 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 and the specialized agencies.

22. 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 Fund. The ILO and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify the ILO's proportionate share of the defined benefit obligation, the 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 39 – Employee Benefits. The ILO's contributions to the Fund during the financial period are recognized as expenses in the consolidated statement of financial performance.

23. 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 benefits are established in accordance with the Staff Regulations of the ILO and the ITC, and the SHIF Regulations and Administrative Rules. Management of the SHIF is the responsibility of a Management Committee consisting of members representing both insured persons and the Director-General of the ILO. This insurance scheme is not subject to any outside regulatory framework.

24. The liability recognized for these plans is the present value of the defined benefit obligations at the reporting date. The ASHI liability and the repatriation entitlements are calculated by an independent actuary using the Projected Unit Credit Method. The principal actuarial risks faced by the plans are changes to discount rates, rates of future medical cost increases and longevity of members.

25. Interest cost 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.

Other employee benefits

26. Other employee benefits comprise first-time employee benefits (for example moving costs, subsidies at the beginning of appointment), regular monthly benefits (for example salaries and allowances), compensated absences (for example annual leave), and other short-term benefits (for example education grant and home leave) established in accordance with the Staff Regulations of the ILO and the ITC. An expense is recognized when employees render service to the Organization and current or non-current liabilities are recognized for any entitlements that have not been settled at the reporting date.

Foreign currency transactions

27. 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.

28. 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.

29. 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.

30. Exchange gains and losses 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.

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

Impairment

32. 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.

Intangible assets

33. Intangible assets are recognized at historical cost and amortized over their useful life 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

34. Investments are designated as financial assets at fair value through surplus or deficit upon initial recognition, and subsequently 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.

Leases

35. 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

36. 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.

37. The liability for health insurance claims incurred but not yet received relating to SHIF is classified as an accrual. It is estimated based on the expenditure patterns over the past years and is adjusted on an annual basis.

Property and equipment

38. 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.

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

40. Property and equipment are derecognized either on disposal or when they are permanently withdrawn from use and no future economic benefit or service potential is expected. 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.

41. 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)	15–100
Field offices	20–75
Equipment	5–10
Leasehold improvements	Lower of estimated useful life (15–30) and term of lease

Provisions and contingent liability

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

43. 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

44. 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 International Labour Conference but not recognized as revenue at the reporting date are disclosed as contingent assets since they possess the essential characteristics of an asset but do not satisfy the criteria for asset recognition, the inflow of resources being possible.
  - A provision is established for a sum 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 the 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 as of the reporting date.
  - Voluntary contributions to development cooperation projects are normally subject to conditions related to performance. A receivable and a liability (deferred revenue) are initially recognized at fair value and subsequently measured at amortized cost as of the reporting date 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 as of the reporting date 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.

- ITC 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 ITC'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 ITC 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

45. 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.

- **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 SHIF.

Note 3 – New accounting standards

New accounting standards issued but not yet effective

46. The International Public Sector Accounting Standards Board (IPSASB) has previously published several new and amended standards, which will be effective in the next financial reporting period starting 1 January 2023. The following will result in changes to the consolidated financial statements:

- IPSAS 41 – Financial Instruments and subsequent amendment. This standard will replace the existing IPSAS 29 – Financial Instruments and sets out new requirements for recognition and measurement of financial assets, including impairment. Classification names will change to better align to the management model for holding these assets, and disclosures and accounting policies will be consequentially updated, but there will be minimal changes to the underlying accounting for financial assets upon implementation of this standard. The standard also introduces a forward-looking expected credit loss model to assess impairment of financial assets, which will result in changes to the methodology to quantify current and expected credit risk.

47. The following standards will have no impact on the consolidated financial statements:

- IPSAS 42 – Social Benefits. This standard defines social benefits as cash transfers to individuals to mitigate the effect of social risks and address the needs of society as a whole and provides guidance for their accounting.
- IPSAS 36 – Investments in Associates and Joint Ventures was consequentially amended, through the issuance of IPSAS 41 – Financial Instruments.
- IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets was amended to provide requirements for governments when committing to provide future collective and individual services to address the needs of society as a whole.

48. The following new standards were published during 2022, but are not effective until 1 January 2025:

- IPSAS 43 – Leases. This standard replaces the current IPSAS for leases and sets updated principles for the recognition, measurement, presentation and disclosure of leases.
- IPSAS 44 – Non-current assets held for sale and discontinued operations. This standard was issued to specify the accounting for assets when they are made available for sale on commercial terms and the presentation and disclosure of discontinued operations. This standard has no expected impact on the consolidated financial statements.

Note 4 – Cash and cash equivalents

49. 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$ thousands)	US$	CHF	€	Other	2022 total	2021 total
Cash	136 161	102 417	27 738	8 255	274 571	244 808
Cash equivalents	5 055	–	–	–	5 055	53 007
Total cash and cash equivalents	**141 216**	**102 417**	**27 738**	**8 255**	**279 626**	**297 815**

50. Net interest revenue of US$3.86 million was earned during the year through current accounts (US$0.06 million) and short-term deposits (note 8, US$3.80 million), and included in the net cash flows from operating activities in the Consolidated statement of cash flow. Cash and cash equivalent balances of the ITC include restricted amounts of €5.73 million (US$6.10 million) that must be used for training and advisory services and other specific purposes at the ITC.

Note 5 – Contributions receivable – Assessed contributions

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

(US$ thousands)	2022	2021
Assessed contributions receivable (notes 29 and 30)	186 475	174 232
Less: Advance payments received from Member States with financial arrangements (note 30)	(147)	(158)
Less: Amortization of long-term financial arrangements	(200)	(302)
Less: Provision for doubtful collection of contributions	(40 479)	(30 855)
Total net receivable – Assessed contributions	**145 649**	**142 917**
▪ Contributions receivable – Assessed contributions – Current	141 680	137 798
▪ Contributions receivable – Assessed contributions – Non-current	3 969	5 119

52. Non-current contributions receivable represent amounts due from Member States with financial arrangements approved by the International Labour Conference net of amortization and provision.

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

(US$ thousands)	2022	2021
Less than 1 year	117 536	120 293
1–2 years	38 651	26 339
Over 2 years	30 141	27 442
Less provision for doubtful debts and amortization	(40 679)	(31 157)
Total net receivable	**145 649**	**142 917**

Note 6 – Contributions receivable – Voluntary contributions

54. As at the reporting date, voluntary contributions receivable are as follows (see also note 13 – Deferred revenue):

(US$ thousands)	2022	2021
Voluntary contributions receivable – Current		
Development cooperation projects (all with conditions)	207 050	261 123
Regular Budget Supplementary Account (RBSA)	–	454
ITC training services	4 789	11 871
Subtotal voluntary contributions receivable – Current	**211 839**	**273 448**
Voluntary contributions receivable – Non-current		
Development cooperation projects (all with conditions)	185 288	183 421
ITC training services	903	1 816
Subtotal voluntary contributions receivable – Non-current	**186 191**	**185 237**
Total voluntary contributions receivable	**398 030**	**458 685**

Note 7 – Derivative assets

55. As at the reporting date the ILO has the following derivative assets:

(US$ thousands)	2022	2021
Derivative assets		
SHIF forward purchase agreement – Current	422	543
ILO regular budget forward purchase agreement – Current	4 962	2 898
ILO regular budget forward purchase agreement – Non-current	–	2 223
Total derivative net asset position	**5 384**	**5 664**

56. 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$ thousands)
SHIF forward purchase agreement	Within the next 3 months	47 635
ILO regular budget forward purchase agreement	Within the next 3 months	43 783
ILO regular budget forward purchase agreement	Within the following 12 months	135 404

SHIF forward purchase agreement

57. The risk related to financial assets held on behalf of SHIF in currencies other than the Swiss franc and US dollar (up to a 35 per cent level, with a tolerance of +/- 5 per cent) is hedged by purchasing forward purchase agreements in each of the other currencies in which investments are held.

ILO regular budget forward purchase agreement

58. The primary source of revenue to finance the Organization's regular budget activities is assessed contributions from 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.

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

(US$ thousands)	**2022**	**2021**
Fair value as at 1 January	**5 121**	**(12 469)**
Derivatives exercised during the period and recognized in net assets	(2 114)	21 787
Derivatives exercised during the period and recognized in surplus (deficit)	(784)	(9 318)
Change in fair value of the spot element recognized in net assets	2 341	4 373
Change in fair value of the forward element recognized in surplus (deficit)	398	748
Total fair value as at 31 December	**4 962**	**5 121**

60. The cash flow hedges were highly effective in 2022. 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$ thousands)	**2022**	**2021**
Opening balance as at 1 January (note 18)	**4 373**	**(21 787)**
Reclassification during the year to exchange gain (loss) and revaluation, net	(2 114)	21 787
(effective hedge of the spot element – transactions realized during the period)		
Net gain (loss) during the year recognized in net assets	2 341	4 373
(effective hedge of the spot element – forecasted transactions)		
Closing balance as at 31 December (note 18)	**4 600**	**4 373**

61. The amounts retained in net assets as at 31 December 2022 are expected to mature and affect the consolidated statement of financial performance in 2023.

Note 8 – Investments

62. 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 as part of a portfolio investment which is intended to be kept for the long term and reinvested.

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

64. The fair value and historic cost as at the reporting date are as follows:

(US$ thousands)	2022		2021	
	Fair value	Cost	Fair value	Cost
Investments – Current				
ILO short-term deposit	656 674	656 674	594 874	594 874
Subtotal investment – Current	**656 674**	**656 674**	**594 874**	**594 874**
Investments – Non-current				
Cash within the portfolios	5 489	5 489	4 278	4 278
Fixed income				
Floating rate notes	7 110	7 110	10 179	10 226
Money market	20 275	20 136	41 002	40 982
Total fixed income investments	**27 385**	**27 246**	**51 181**	**51 208**
Unit funds	292 794	290 161	311 333	294 844
Subtotal investment – Non-current	**325 668**	**322 896**	**366 792**	**350 330**
Total investment	**982 342**	**979 570**	**961 666**	**945 204**

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

(US$ thousands)	2022	2021
Fair value at 1 January	**961 666**	**851 519**
Investment income/(loss), net	(2 394)	5 945
Net interest income transferred to cash and cash equivalents	(3 797)	(1 420)
Foreign exchange gains and (losses)	(8 742)	(10 847)
Finance expenses	(933)	(790)
Amounts transferred to receivable	(5 820)	(236)
New investment during the period	1 180 870	1 210 016
Disposal of investments during the period	(1 138 508)	(1 092 521)
Fair value at 31 December	**982 342**	**961 666**

Note 9 – Other receivables

66. Other receivables are as follows:

(US$ thousands)	2022	2021
Amounts receivable from land sale	21 668	49 180
US income taxes receivable	4 557	4 471
Accrued interest and investment income	5 947	406
VAT and other withholding taxes receivable	1 701	1 681
Other accrued income and amounts receivable	1 615	1 610
Total other receivables	**35 488**	**57 348**
▪ Other receivables – Current	35 488	35 490
▪ Other receivables – Non-current	–	21 858

67. Amounts receivable of CHF20.00 million for the land sale relate to the disposition of the vacant land plot located in Geneva in 2020 for a base selling price of CHF150.00 million. Instalments were received during 2020, 2021 and 2022 in accordance with the sale contract, with the final instalment due and received by the ILO in January 2023.

68. Other accrued income and amounts receivable are attributable to rental activities, Administrative Tribunal billings, and miscellaneous reimbursements due to the ILO.

69. An ageing of other receivables is as follows:

(US$ thousands)	2022	2021
Less than 1 year	32 704	54 939
1–2 years	744	1 096
Over 2 years	2 040	1 313
Total net receivable	**35 488**	**57 348**

Note 10 – Other current assets

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

(US$ thousands)	2022	2021
Prepaid expenses	31 805	27 012
Staff advances	6 743	6 707
Other	1 629	1 609
Total other current assets	**40 177**	**35 328**

Note 11 – Property and equipment

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

(US$ thousands)	Land	Buildings	Leasehold	Equipment	Total
Net carrying amount 31 Dec. 2020	**320 134**	**316 665**	**6 464**	**4 427**	**647 690**
Additions	–	12 830	1 337	1 539	15 706
Depreciation	–	(9 240)	(600)	(1 255)	(11 095)
Disposals – carrying amount	–	–	–	(1 503)	(1 503)
Disposals – accumulated depreciation	–	–	–	1 484	1 484
Net revaluation recognized in net assets	16 436	(9 042)	–	–	7 394
Foreign exchange differences on translation	–	–	(492)	(44)	(537)
Subtotal 2021 movement	**16 436**	**(5 452)**	**245**	**221**	**11 449**
Closing balance 31 Dec. 2021	**336 570**	**311 213**	**6 709**	**4 648**	**659 139**
Gross carrying amount 31 Dec. 2021	336 570	311 213	14 388	15 699	677 869
Accumulated depreciation	–	–	(7 679)	(11 051)	(18 730)
Net carrying amount 31 Dec. 2021	**336 570**	**311 213**	**6 709**	**4 648**	**659 139**
Additions	–	30 244	3 992	1 247	35 483
Depreciation	–	(9 945)	(566)	(1 243)	(11 754)
Disposals – carrying amount	–	–	–	(872)	(872)
Disposals – accumulated depreciation	–	–	–	839	839
Net revaluation recognized in net assets	26 401	1 094	–	–	27 495
Foreign exchange differences on translation	–	–	(390)	(50)	(440)
Subtotal 2022 movement	**26 401**	**21 393**	**3 036**	**(79)**	**50 751**
Closing balance 31 Dec. 2022	**362 971**	**332 606**	**9 745**	**4 569**	**709 890**
Gross carrying amount 31 Dec. 2022	362 970	332 606	17 559	15 897	729 033
Accumulated depreciation	–	–	(7 814)	(11 328)	(19 142)
Net carrying amount 31 Dec. 2022	**362 970**	**332 606**	**9 745**	**4 569**	**709 891**

Land and buildings

72. The Organization owns its headquarters building in Geneva, Switzerland, and the land upon which it was built along with an adjoining plot. In addition, the Organization owns land and buildings in Abidjan (Côte d'Ivoire), Lima (Peru) and Santiago (Chile). In Buenos Aires (Argentina), the

Organization owns an apartment located in a building 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 26).

73. 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 2022 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 2022 includes US$5.82 million revaluation loss 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 18.

US$ (thousands)	**2022**	**2021**
Land		
Headquarters – Geneva	350 737	324 744
Lima	3 810	3 792
Abidjan	3 367	3 414
Santiago	5 056	4 620
Total land	**362 970**	**336 570**
Buildings		
Headquarters – Geneva	307 703	286 514
Lima	12 038	12 008
Brasilia	1 666	1 440
Abidjan	3 598	3 930
Dar es Salaam	1 429	1 568
Buenos Aires	425	517
Islamabad	423	485
Santiago	5 324	4 751
Total buildings	**332 606**	**311 213**
Total land and buildings	**695 576**	**647 783**

74. The phase 2 of the headquarters building renovation project (renovation of the conference rooms and common areas) continued during 2022 and is scheduled to be completed in 2026. The related capital expenditures are presented as “Additions” to “Buildings” in the table in paragraph 71.

Leasehold improvements

75. The Organization has improvements on leasehold property in New Delhi (India), Bangkok (Thailand), Mexico City (Mexico) and buildings at the ITC.

Note 12 – Intangible assets

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

(US$ thousands)	**Software acquired externally**	**Software internally developed**	**Total**
Net carrying amount 31 December 2020	**88**	**2 810**	**2 898**
Additions	110	767	877
Amortization	(71)	(440)	(511)
Disposals – carrying amount	(20)	–	(20)
Disposals – accumulated amortization	20	–	20
Foreign exchange differences on translation	(1)	–	(1)

(US$ thousands)	Software acquired externally	Software internally developed	Total
Subtotal 2021 movement	**38**	**327**	**365**
Closing balance at 31 December 2021	**126**	**3 137**	**3 263**
Gross carrying amount 31 December 2021	1 326	6 538	7 864
Accumulated amortization	(1 200)	(3 401)	(4 601)
Net carrying amount 31 December 2021	**126**	**3 137**	**3 263**
Additions	–	1 589	1 589
Amortization	(42)	(680)	(722)
Disposals – carrying amount	(295)	–	(295)
Disposals – accumulated amortization	295	–	295
Foreign exchange differences on translation	–	–	–
Subtotal 2022 movement	**(42)**	**909**	**867**
Closing balance at 31 December 2022	**84**	**4 046**	**4 130**
Gross carrying amount 31 December 2022	1 019	8 112	9 131
Accumulated amortization	(935)	(4 066)	(5 001)
Net carrying amount 31 December 2022	**84**	**4 046**	**4 130**

Note 13 – Deferred revenue

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

(US$ thousands)	Current	Non-current	Total 31 Dec. 2022	Total 31 Dec. 2021
Assessed contributions received in advance	41 842	–	41 842	43 033
Voluntary contributions receivable for signed agreements	211 138	185 288	396 426	455 424
Due to donors (including ITC)	514 320	–	514 320	508 846
Receivables for signed agreements for ITC training services	2 905	855	3 760	12 376
SHIF contributions received in advance	759	–	759	839
Other deferred revenue	679	–	679	486
Total deferred revenue	**771 643**	**186 143**	**957 786**	**1 021 004**

78. The deferred voluntary contribution revenue represents the amount receivable pending the completion of the performance required by agreements between the Organization and the donors (see also note 6 – Contributions receivable – Voluntary contributions).

Note 14 – Employee benefits

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

(US$ thousands)	Current	Non-current	Total 31 Dec. 2022	Total 31 Dec. 2021
Education grant	1 274	–	1 274	1 072
Accumulated leave and home leave	29 495	15 681	45 176	45 851
Repatriation entitlements	5 161	28 725	33 886	42 195
ASHI liability	30 803	1 368 319	1 399 122	2 022 951
Total employee benefits liabilities	**66 733**	**1 412 725**	**1 479 458**	**2 112 069**

Post-employment benefits

United Nations Joint Staff Pension Fund

80. 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.

81. The ILO's financial obligation to the Fund 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 Pension 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.

82. The latest actuarial valuation for the Fund was completed as of 31 December 2021, and a roll forward of the participation data as of 31 December 2021 to 31 December 2022 will be used by the Fund for its 2022 financial statements.

83. The actuarial valuation as of 31 December 2021 resulted in a funded ratio of actuarial assets to actuarial liabilities of 117.0 per cent (107.1 per cent in the 2019 valuation). The funded ratio was 158.2 per cent (144.4 per cent in the 2019 valuation) when the current system of pension adjustments was not taken into account.

84. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2021, 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 plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of article 26.

85. Should article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the Fund, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2019, 2020 and 2021) amounted to US$8,505.27 million, of which 2.1 per cent was contributed by the ILO.

86. During 2022, the ILO's contributions paid to the Fund amounted to US$64.60 million (US$63.10 million in 2021). Expected contributions due in 2023 are approximately US$67.70 million.

87. Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

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

After-service health insurance plan (ASHI)

89. An actuarial valuation carried out for 2022 calculated the ILO's estimated liability for after-service medical benefits at the reporting date as described in the following paragraphs.

90. 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. The selection includes harmonized actuarial factors as applied across the UN system. For the 2022 valuation, the assumptions and methods used are as described below.

Key financial assumptions	**2022** (%)	**2021** (%)
Discount rate		
ILO	2.88	0.78
ITC	3.93	1.28
ISSA	2.26	0.50
Rate of future compensation increases	3.00 + UNJSPF salary scale	3.00 + UNJSPF salary scale
Rate of pension increases	2.50	2.50
Medical inflation	4.00 decreasing by 0.20 per year to 3.00 in 2027	3.20 decreasing by 0.10 per year to 2.90 in 2024

91. 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 (Swiss franc, US dollar and euro). The final rate was determined by averaging the different discount rates, weighted by the benefits payments in the different currencies. The weighted average duration of the defined benefit obligation based on the plan census data and key assumptions is 19 years (22 years in 2021).

92. Should the key assumptions about medical cost trends or discount rates described above change, this would impact the measurement of the ASHI defined benefit obligation (DBO) as follows:

Sensitivity information for key assumptions (% of end of year liability)	**2022** (%)	**2021** (%)
Effect on defined benefit obligation and combined service and interest cost components		
Health care cost trend rate +1 percentage point	23.4	26.5
Discount rate +1 percentage point	(17.3)	(19.4)
Health care cost trend rate -1 percentage point	(18.2)	(20.2)
Discount rate -1 percentage point	22.5	26.5

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

(US$ thousands)	**2022**	**2021**
Defined benefit obligation, opening balance	**2 022 951**	**2 046 135**
Current service cost	80 034	86 813
Interest cost	16 202	11 813
Total costs recognized in the consolidated statement of financial performance	**96 236**	**98 626**

(US$ thousands)	**2022**	**2021**
Net benefits paid	**(26 179)**	**(29 672)**
Actuarial (gain) loss due to experience	(50 021)	58 340
Actuarial (gain) loss due to financial assumption changes	(663 930)	(150 478)
Actuarial (gain) loss due to demographic assumption changes	20 065	–
Total actuarial (gain) loss recognized directly in the consolidated statement of changes in net assets	**(693 886)**	**(92 138)**
Defined benefit obligation, closing balance	**1 399 122**	**2 022 951**

94. Expenses related to interest cost and current services costs for 2022 have been recognized net of benefits paid in the consolidated statement of financial performance as staff costs. Cumulative net actuarial losses of US$353.33 million (US$1,047.21 million as of 31 December 2021) have been recognized directly against net assets. In accordance with IPSAS 39, no plan assets have been offset against the liability; however, an amount of US$62.74 million is available in a SHIF Guarantee Fund (US$67.32 million as at 31 December 2021) to cover future liabilities of SHIF. In addition, an amount of US$29.84 million has been accumulated to partially fund the ASHI liability (US$27.60 million as at 31 December 2021).

95. The ILO finances its ASHI liability on a pay-as-you-go basis. The Programme and Budget for 2022–23 includes a provision of US$30.10 million for this purpose.

Repatriation entitlements

96. The repatriation entitlements at the reporting date are as follows:

(US$ thousands)	**Current**	**Non-current**	**Total 31 Dec. 2022**	**Total 31 Dec. 2021**
Travel and removal on separation	1 234	5 753	6 987	8 029
Repatriation grant	3 348	15 785	19 133	23 953
ITC end-of-service benefit	579	7 187	7 766	10 213
Total repatriation entitlements	**5 161**	**28 725**	**33 886**	**42 195**

97. An actuarial valuation carried out for 2022 calculated the ILO's estimated liability for repatriation entitlements at the reporting date as described in the following paragraphs.

98. 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 2022 valuation, the assumptions and methods used are as described below.

Key financial assumptions	**2022** (%)	**2021** (%)
Discount rate	ILO Repatriation grant: 5.09 ITC Repatriation grant: 4.86 ILO Travel and removal: 5.15 ITC Travel and removal: 3.78 End of service payment: 3.80	ILO Repatriation grant: 2.59 ITC Repatriation grant: 2.62 ILO Travel and removal: 2.71 ITC Travel and removal: 0.88 End of service payment: 0.70
Rate of future compensation increases:	3.00 + UNJSPF salary scale	3.00 + UNJSPF salary scale
Rate of future cost increases: Repatriation travel and removal costs	ILO rate: 1.2 ITC rate: 2.2	ILO rate: 0.9 ITC rate: 2.2
Probability of benefit claim	ILO repatriation grant: 52 ITC Repatriation grant: 98	ILO repatriation grant: 55 ITC Repatriation grant: 98
	ILO travel and removal: 74 ITC travel and removal: 98	ILO travel and removal: 74 ITC travel and removal: 98

99. 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 2022.

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

(US$ thousands)	2022	2021
Defined benefit obligation, opening balance	**42 195**	**44 773**
Current service cost	1 566	2 532
Interest cost	823	690
Total costs recognized in the consolidated statement of financial performance	**2 389**	**3 222**
Net benefits paid	**(2 817)**	**(2 231)**
Actuarial (gain) loss due to experience	(266)	830
Actuarial (gain) loss due to demographic assumption changes	(913)	(1 963)
Actuarial (gain) loss due to financial assumption changes	(6 007)	(1 529)
Total actuarial (gain) loss recognized directly in the consolidated statement of changes in net assets	**(7 185)**	**(2 662)**
Foreign currency exchange rate changes	**(695)**	**(907)**
Defined benefit obligation, closing balance	**33 887**	**42 195**

101. Expenses related to interest cost and current services costs for 2022 have been recognized net of benefits paid in the consolidated statement of financial performance as staff costs. Cumulative net actuarial gains of US$20.09 million (US$12.90 million as at 31 December 2021) have been recognized directly against net assets, of which US$0.39 million actuarial losses are related to travel and transport benefits for employees funded through development cooperation projects and form part of the net Due to Donor balance rather than the net assets of the Organization.

102. In accordance with IPSAS 39, no plan assets have been offset against the liability; however, an amount of US$51.97 million has been accumulated by the ILO in the Terminal Benefits Fund (US$53.71 million as at 31 December 2021) to fund future ITC end-of-service benefits and repatriation grants for both the ILO and the ITC.

Note 15 – Borrowings

103. Borrowings consist of two loans in Swiss francs made to the ILO from the Foundation for Buildings for International Organisations:

(US$ thousands)	Original construction loan	Renovation loan	2022 Total	2021 Total
Nominal value beginning of period	**16 185**	**71 403**	**87 588**	**97 596**
Amounts repaid in the period	(3 721)	(2 345)	(6 066)	(6 547)
Exchange rate effect on CHF borrowings	(431)	(802)	(1 233)	(3 463)
Nominal value end of period	**12 033**	**68 256**	**80 289**	**87 586**
Remaining unamortized fair value discount	(493)	–	(493)	(823)
Carrying value end of period	**11 540**	**68 256**	**79 796**	**86 763**

104. The original construction loan from 1967 for the construction of the ILO headquarters building carried an interest rate based on market rates; this interest was subsequently waived by the Swiss Confederation in 1996. The loan is repayable in annual instalments of CHF3.70 million, with the final payment due in 2025.

105. The renovation loan agreement was signed in April 2017 for the amount of CHF70.00 million to partially finance the subsequent renovation of the ILO headquarters building. Disbursements commenced to the ILO in 2017 and were received over the period of renovations, ending in 2020. The loan is repayable in annual instalments of CHF2.33 million that began in 2020. The annual interest rate is fixed at 0.5 per cent, commencing when the total loan was disbursed in 2020.

106. The annual contractual payments in nominal value, excluding interest, are as follows:

(US$ thousands)	Original construction loan	Renovation loan	Total loans payable
Payments due next year	4 011	2 528	6 539
Payments due from second to fifth year	8 022	10 112	18 134
Payments due after five years	–	55 616	55 616
Nominal value at 31 December 2022	**12 033**	**68 256**	**80 289**

Note 16 – Due to Member States

107. The amount due to Member States at the reporting date is calculated as follows:

(US$ thousands)	2022	2021
Undistributed surpluses of prior periods	75	113
Undistributed net premia of prior periods	571	8 406
Undistributed 50 per cent of net premia	12 436	12 545
Subtotal	**13 082**	**21 064**
Incentive Fund	12 799	21 074
Total payable to Member States	**25 881**	**42 138**
▪ Due to Member States – Current	**21 094**	**16 307**
▪ Due to Member States – Non-current	**4 787**	**25 831**

108. 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 2022 amount is included in the accumulated fund balance pending the biennial results.

Calculation of net premium and Incentive Fund

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

110. **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. The calculation of the various distributions of the net operational result in accordance with the Financial Regulations is done on a biennial basis.

111. **Incentive Fund** – Article 11(4)–(6) provides for an Incentive Fund financed from 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 biennial financial period during which the net premium was earned.

112. Following the postponement of the 109th Session of the International Labour Conference from 2020 to 2021, which implied postponing the adoption of the ILO audited consolidated Financial Statements for the year ended 31 December 2019, the distribution of the 2018–19 incentive scheme and the 50 per cent of 2018–19 net premium was deferred to January 2022.

Composition of Incentive Fund (US$ thousands)	**2022**	**2021**
Interest earned in current year	274	90
Interest earned in prior years	89	406
Total interest earned	**363**	**496**
50 per cent of net premium	12 436	20 578
Total available in Incentive Fund	**12 799**	**21 074**

Note 17 – Other current liabilities

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

(US$ thousands)	**2022**	**2021**
Pass-through funds held as administrative agent	4 314	5 535
Provisions for contingencies	483	144
Other	1 999	1 384
Total other current liabilities	**6 796**	**7 063**

114. In some agreements, the ILO is the administrative agent responsible for passing through funds to implementing partners or other beneficiaries. A liability is established to reflect the funds received from the donor but not yet passed through to implementing partners or beneficiaries as at 31 December.

115. 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$ thousands)	**2022**	**2021**
Balance as at 1 January	**144**	**56**
Additional provisions raised during the period	370	95
Provisions used during the period	(15)	(7)
Unused provisions reversed during the period	(16)	–
Balance as at 31 December	**483**	**144**

Note 18 – Reserves and accumulated balances

116. 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 International Labour Conference or the Financial Regulations and include:
  - **Working Capital Fund:** to finance budgetary expenditure pending receipt of assessed contributions and, subject to prior Governing Body approval, to meet emergencies;
  - **Income Adjustment Account:** to provide temporary internal 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;
  - **Extrabudgetary reserve:** to finance costs incurred in connection with development cooperation projects not reimbursed by donors;
  - **SHIF Guarantee Fund:** to meet solvency needs;
  - **ASHI Liability Reserve:** established to partially fund the ASHI liability;

- **ITC's Working Capital Fund:** established in accordance with the Financial Regulations of the ITC.

- **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;
  - **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.

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

(US$ thousands)	2022	2021
Reserves		
Working Capital Fund	37 580	14 450
Income Adjustment Account	70 086	69 386
Terminal Benefit Fund	51 971	53 704
Fidelity Guarantee Fund	1 403	1 392
Extra-budgetary Fund	25	25
SHIF Guarantee Fund	62 743	67 325
ASHI Liability Reserve	29 840	27 593
ITC's Working Capital Fund	2 130	2 270
Total reserves	**255 778**	**236 145**
Accumulated balances		
Employee benefits	(897 213)	(1 598 216)
Revaluation surplus of land and buildings	431 029	403 534
Value of outstanding derivatives	4 601	4 373
Translation difference	(5 389)	(3 540)
Accumulated surplus	212 948	253 917
Total accumulated balances	**(254 024)**	**(939 932)**
Total net assets	**1 754**	**(703 787)**

Note 19 – Expenses

118. 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:** includes 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:** covers 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:** covers expenses under regular budget development cooperation activities and contributions made to jointly funded bodies;
- **Finance expenses:** includes 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 20 – Financial instruments

119. 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 receivable – Assessed	Loans and receivables	Amortized cost
Contributions receivable – Voluntary	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

120. The fair values of cash, cash equivalents, investments – current and fixed-income investments (bonds) are determined using quoted prices in the 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).

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

Financial risk management

122. 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

123. 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

124. 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.

125. 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. 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.

126. 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.

127. The ILO also enters into forward purchase agreements to hedge the non-Swiss franc investments (excluding 35 per cent, with a tolerance of +/- 5 per cent, in US dollar investments) held on behalf of the SHIF against currency gains or losses, since the SHIF's liabilities are predominately Swiss franc and US dollar based.

128. 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.

129. The table below shows the impact on surplus/deficit and net assets as of 31 December 2022, if the major currencies to which the Organization was exposed, weakened or strengthened by 5 per cent against the US dollar:

(US$ thousands)	CHF [1] denominated	Euro [2] denominated
5 per cent depreciation of the foreign currency against US$:		
Impact on surplus/deficit: Financial assets and liabilities other than derivative instruments	(19,960)	(1,354)
Impact on net assets: Derivative instruments	8,692	–
5 per cent appreciation of the foreign currency against US$:		
Impact on surplus/deficit: Financial assets and liabilities other than derivative instruments	22,061	1,497
Impact on net assets: Derivative instruments	(9,607)	–

[1] The UN operational rate of exchange was US$1 = CHF0.923 as at 31 December 2022.

[2] The UN operational rate of exchange was US$1 = €0.939 as at 31 December 2022.

130. 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.

131. 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

132. 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.

133. The ILO is exposed to interest rate risk on surplus/deficit through its interest-bearing financial assets and fixed-income instruments, and through interest rate linked market value changes on the fixed income portions of its investment portfolios. The table below shows the estimated impacts of an increase or decrease in interest rates by 50 basis points:

	(US$ thousands)
50 basis point increase in interest rates	
Impact on interest income	3,446
Impact on fair value of portfolios	(2,600)
Net effect	**846**
50 basis point decrease in interest rates	
Impact on interest income	(3,446)
Impact on fair value of portfolios	2,600
Net effect	**(846)**

134. 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 and diversifying asset classes within its portfolios.

Credit risk

135. 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.

136. 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.

137. The ILO's investment policies limit the amount of credit exposure to any one counterparty and include conservative minimum credit quality requirements of investment grade.

138. 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.

139. 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$ thousands)	%	**Carrying amount** (US$ thousands)	%
AAA	–	–	500	0.1
AA	30 158	10.8	210 980	21.5
A	231 795	82.9	478 067	48.7
BBB	8 607	3.1	–	–
<BBB	6 287	2.2	–	–
Not rated	2 779 [2]	1.0	292 795 [3]	29.8
Total	**279 626**	**100.0**	**982 342**	**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.

140. 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 ratings of derivatives counterparties was A and AA within a maximum exposure of US$5.38 million.

141. The ILO is not exposed to material credit risk related to account receivables as contributions are due primarily from large regulatory or governmental bodies. Amounts receivable related to the sale of land are guaranteed by a bank guarantee of payment in favour of the ILO.

Liquidity risk

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

143. The ILO manages liquidity risk by continuously monitoring actual and estimated cash flows. The ILO's total current assets of US$1,370.89 million are sufficient to settle its current financial liabilities of US$922.05 million. On an ongoing basis, it is anticipated that the ILO will continue to have sufficient liquidity to meet its financial obligations.

Capital management

144. 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.

145. 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 21 – Operating leases

146. 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.

147. The total amount paid by the ILO to other UN agencies for leases under cost-sharing agreements based on the reimbursement of actual cost incurred was US$1.98 million in 2022 (US$2.36 million in 2021).

148. The total amount of lease and sublease expense recognized in 2022 was US$12.57 million (US$12.28 million in 2021).

149. Future minimum lease rental payments and amounts receivable for non-cancellable leases for the following periods are:

(US$ thousands)	2022	2021
Within one year	(395)	(395)
Later than one year and not later than five years	(395)	(790)
Later than five years	–	–
Total minimum rental commitments – Lessee	**(790)**	**(1 185)**
Within one year	3 070	3 097
Later than one year and not later than five years	4 605	7 742
Later than five years	–	–
Total minimum rental receivable – Lessor	**7 675**	**10 839**

150. The total amount of rent earned under contingent lease agreements in 2022 was US$0.76 million (US$0.40 million in 2021), comprising an ITC cost-sharing agreement with other UN agencies with the rent based on reimbursement of actual cost incurred, and occupancy costs for leased office space in the Geneva headquarters building based on actual usage.

Note 22 – Statement of comparison of budget and actual amounts

151. 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 International Labour Conference; 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.

152. 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

153. 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

154. 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

155. 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.

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

(US$ thousands)	Regular budget	CINTERFOR	ITC	Other funds and eliminations	Total
Net result per budgetary basis (Statement V)	(340)	(320)	4 038	–	**3 378**
Reconciling items from budgetary basis to IPSAS basis:					
Reimbursement of 2020–21 deficit financing	23 547	–	–	–	**23 547**
Treatment of exchange differences	(210)	–	2 172	–	**1 962**
Provision for assessed contributions receivable	2 620	–	–	–	**2 620**
Amortization of receivables from Member States with financial arrangement	102	–	–	–	**102**
Recognition of property and equipment	(197)	(3)	(258)	–	**(458)**
Recognition of intangible assets	597	–	–	–	**597**
Accrual of employee benefits	1 363	–	–	–	**1 363**
Provision for contingencies	(339)	–	–	–	**(339)**
Unrealized gain from forward purchase agreements	(387)	–	–	–	**(387)**
Accrual for ITC training and other services	(218)	–	–	–	**(218)**
Expense deferrals	(3 238)	–	–	–	**(3 238)**
Use of prior year surplus (ITC)	–	–	(55)	–	**(55)**
Entity difference (ITC)	–	–	3 617	–	**3 617**
Subsidiary funds	–	–	–	(53 414)	**(53 414)**
Total difference	**23 640**	**(3)**	**5 476**	**(53 414)**	**(24 301)**
Net result per IPSAS basis	**23 300**	**(323)**	**9 514**	**(53 414)**	**(20 923)**

157. The following table provides a reconciliation between Statement V and Statement IV for the year ended 31 December 2022:

(US$ thousands)	Operating activities	Investing activities	Financing activities	Total
Net surplus (deficit) on a budgetary basis (Statement V)	**3 378**	**–**	**–**	**3 378**
Timing difference	–	–	–	–
Basis difference	25 358	139		25 497
Entity difference	15 629	(53 932)	(6 066)	(44 369)
Net consolidated cash flows (Statement IV)	**44 365**	**(53 793)**	**(6 066)**	**(15 494)**
Effect of exchange rates on cash and cash equivalents				(2 695)
Net decrease in cash and cash equivalents				**(18 189)**

Note 23 – Related party disclosures

158. Key management personnel during the period were the Director-General, Deputy Directors-General, Assistant Directors-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 ILO who serve without compensation from the ILO and are not considered key management personnel.

159. The aggregate remuneration paid to key management personnel includes salaries and all allowances established within 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	2022		2021	
	Individuals *	Remuneration (US$ thousands)	Individuals *	Remuneration (US$ thousands)
Key management	11.2	4 342	13.0	4 666

* Full-time equivalent.

160. There were US$0.01 million of new advances granted in 2022 and outstanding to key management personnel as of 31 December 2022.

161. 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 ILO Staff Regulations.

162. There were related party transactions involving key management personnel in 2022 totalling US$0.13 million (US$0.13 million in 2021). All such transactions are under terms and conditions that would apply in the normal course of operations.

Note 24 – Non-exchange transactions

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

(US$ thousands)	2022	2021
Assessed contributions from Member States	409 766	444 990
Voluntary contributions to development cooperation projects, RBSA, and gifts and grants	412 509	379 307
ITC training services and other non-exchange revenue	17 247	15 070
Total revenue from non-exchange transactions	**839 522**	**839 367**
Receivables from assessed contributions (note 5)	145 649	142 917
Receivables from voluntary contributions (note 6)	398 030	458 685
Total receivables from non-exchange transactions	**543 679**	**601 602**
Liabilities recognized for conditional voluntary contributions (note 13)	396 426	455 424
Liabilities recognized for ITC training services (note 13)	3 760	12 376
Advance receipts from assessed contributions (note 13)	41 842	43 033
Total liabilities from non-exchange transactions	**442 028**	**510 833**

Note 25 – Contingent assets and liabilities and commitments

Contingent assets

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

(US$ thousands)	2022
Member State contribution assessed for 2023 *	426 380
Revenue from the Government of Italy for ITC Operations covering future periods	8 360
Revenue from the Government of Italy for refurbishment of ITC Campus infrastructure	8 520
Revenue from voluntary ITC training services covering future periods	586
Contributions to the RBSA covering future periods	6 656
Total contingent assets	**450 502**

* CHF383.74 million at the budget rate of exchange of US$1 = CHF 0.90 adopted by the ILO for the 2022–23 biennium.

Contingent liabilities

165. The ILO has contingent liabilities of US$0.05 million for claims or legal actions related to the ILO Administrative Tribunal as at 31 December 2022 (US$0.20 million as at 31 December 2021).

166. A potential liability exists for the ITC relating to a contract with a third party. It is possible that the ITC will incur an actual financial liability by the occurrence of one or more future events which are not wholly within its control. As the ITC is not currently in a position to reliably measure the amount of the financial liability that may result from this, no liability or expenditure is recognized in the consolidated financial statements.

Commitments

167. Outstanding contracts for renovation of the headquarters building totalled US$112.01 million as at 31 December 2022 (US$19.93 million as at 31 December 2021). The ITC had commitments for contracts related to future services of US$2.03 million as at 31 December 2022 (US$2.92 million as at 31 December 2021).

168. Future minimum lease rental payments for non-cancellable leases are presented in note 21.

Note 26 – Contributions in kind

169. 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
	Dakar	Government of Senegal
	CINTERFOR, Montevideo	Government of Uruguay

Note 27 – Events after the reporting date

170. The ILO's reporting date is 31 December 2022 and its financial statements are authorized for issue on the same date as the External Auditor's opinion. On 19 March 2023, it was announced that UBS bank would acquire Credit Suisse bank. The Swiss Federal Department of Finance, the Swiss National Bank and the Swiss Financial Market Supervisory Authority (FINMA) endorsed the acquisition and, subject to customary closing conditions, the transaction is expected to be completed by the end of 2023. UBS is a key banking partner for the ILO. It provides services including cash management, banking, investments and currency exchange to the ILO. Credit Suisse is one of the ILO's minor banking partners and only provides some investment services to the ILO.

171. The ILO does not anticipate any disruption to its banking operations related to this acquisition. Furthermore, the ILO does not expect any significant financial impairment related to this transaction. With the acquisition of Credit Suisse by UBS, the ILO will pursue a strategy of strengthening relationships with alternative banks to further diversify its banking service providers.

Note 28 – Segment reporting table

172. Segment reporting is based on the information that is most useful to readers of the financial statements to evaluate the ILO's financial position and performance and make decisions about allocating resources.

173. Segment reporting is presented in a format that distinguishes funds with approved budgets (Statements V-A, V-B and V-C), activities financed by voluntary contributions and other subsidiary funds (note 22).

▶ Consolidated statement of financial performance by segment for the year ended 31 December 2022 (US$ thousands)

	Funds with approved budgets:				Voluntary contribution activities	Subsidiary funds	Intersegments transfers elimination	Total
	Regular budget	CINTERFOR	ITC	Subtotal				
Revenue								
Assessed contributions	409 766	–	–	409 766	–	–	–	409 766
Voluntary contributions	–	1 626	19 051	20 677	398 094	51 201	(57 463)	412 509
ITC training services	–	–	27 549	27 549	–	–	(12 185)	15 364
Programme support income	–	–	–	–	–	36 774	(36 774)	–
Staff/retiree benefit contributions	–	–	–	–	–	51 895	(28 053)	23 842
Sales and royalties	–	–	2 795	2 795	7 721	12 897	(5 690)	17 723
Investment income	–	17	182	199	1 559	(4 090)	–	(2 332)
Other income	(33)	–	732	699	–	1 091	(105)	1 685
Total revenue	**409 733**	**1 643**	**50 309**	**461 685**	**407 374**	**149 768**	**(140 270)**	**878 557**
Expenses								
Salaries, employee benefits and other personnel costs	263 502	1 541	23 566	288 609	141 726	94 778	(20 821)	504 292
Travel	8 485	51	1 861	10 397	8 864	466	(23)	19 704
Subcontracts	25 390	171	10 080	35 641	163 827	1 721	(3 841)	197 348
General operating expenses	26 603	133	4 148	30 884	12 993	3 751	(3 169)	44 459
Supplies, materials and small equipment	2 441	14	921	3 376	4 964	453	(64)	8 729
Depreciation and amortization	1 644	3	746	2 393	1	10 083	–	12 477
Seminars, workshops and other training	5 606	36	1 855	7 497	22 367	88	(6 327)	23 625
Staff development	1 794	11	–	1 805	1	–	(345)	1 461
Health benefits	–	–	–	–	–	50 343	–	50 343
Contributions and grants in aid	43 269	–	–	43 269	9 814	35 697	(68 258)	20 522
Programme support costs	–	–	–	–	37 421	1	(37 422)	–
Finance expenses	(102)	4	60	(38)	255	2 782	–	2 999
Other expenses	855	–	–	855	8	428	–	1 291
Total expenses	**379 487**	**1 964**	**43 237**	**424 688**	**402 241**	**200 591**	**(140 270)**	**887 250**
Foreign exchange gains/(losses)	(6 946)	(2)	2 442	(4 506)	(243)	(7 481)	–	(12 230)
Net surplus (deficit)	**23 300**	**(323)**	**9 514**	**32 491**	**4 890**	**(58 304)**	**–**	**(20 923)**

▶ Consolidated statement of financial performance by segment for the year ended 31 December 2021 (US$ thousands)

	Funds with approved budgets:				Voluntary contribution activities	Subsidiary funds	Intersegments transfers elimination	Total
	Regular budget	CINTERFOR	ITC	Subtotal				
Revenue								
Assessed contributions	444 990	–	–	444 990	–	–	–	444 990
Voluntary contributions	–	1 784	17 036	18 820	365 419	36 648	(41 580)	379 307
ITC training services	–	–	31 103	31 103	–	–	(17 219)	13 884
Programme support income	–	–	–	–	–	32 916	(32 916)	–
Staff/retiree benefit contributions	–	–	–	–	–	53 288	(28 905)	24 383
Sales and royalties	–	–	2 161	2 161	8 253	10 461	(3 619)	17 256
Investment income	–	5	66	71	132	5 742	–	5 945
Other income	16	–	538	554	–	2 932	(10)	3 476
Total revenue	**445 006**	**1 789**	**50 904**	**497 699**	**373 804**	**141 987**	**(124 249)**	**889 241**
Expenses								
Salaries, employee benefits and other personnel costs	278 912	1 116	25 007	305 035	135 041	90 360	(23 518)	506 918
Travel	1 613	33	279	1 925	2 558	542	(8)	5 017
Subcontracts	42 510	139	12 028	54 677	157 649	3 715	(3 537)	212 504
General operating expenses	29 001	97	4 003	33 101	9 677	1 909	(1 413)	43 274
Supplies, materials and small equipment	6 159	28	874	7 061	6 355	674	(150)	13 940
Depreciation and amortization	1 285	3	849	2 137	–	9 470	–	11 607
Seminars, workshops and other training	8 538	13	1 293	9 844	18 845	247	(10 996)	17 940
Staff development	2 380	10	–	2 390	–	–	(716)	1 674
Health benefits	–	–	–	–	–	53 820	–	53 820
Contributions and grants in aid	43 494	–	–	43 494	11 723	13 595	(50 395)	18 417
Programme support costs	–	–	–	–	33 516	–	(33 516)	–
Finance expenses	(143)	3	54	(86)	38	3 115	–	3 067
Other expenses	176	–	–	176	–	332	–	508
Total expenses	**413 925**	**1 442**	**44 387**	**459 754**	**375 402**	**177 779**	**(124 249)**	**888 686**
Foreign exchange gains/(losses)	(38 830)	(4)	1 122	(37 712)	(138)	(10 991)	–	(48 841)
Net surplus (deficit)	**(7 749)**	**343**	**7 639**	**233**	**(1 736)**	**(46 783)**	**–**	**(48 286)**

Note 29 – Assessed contributions table – 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 2022 (in Swiss francs)

Details	Balance due as at 1.1.2022 [(1)]	Assessed Contributions 2022	Total amounts due	Amount received or credited [(2)] 31.12.2022	Balance due as at 31.12.2022
A. Assessed contributions for the financial period 2022–23:					
2022 – Assessed with the budget		383 742 090	383 742 090	275 119 977	108 622 113
Total assessed contributions for the financial period 2022		**383 742 090**	**383 742 090**	**275 119 977**	**108 622 113**
B. Assessed contributions for previous financial periods due from Member States	152 806 178		152 806 178	95 927 168	56 879 010
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	159 421 867	–	159 421 867	95 927 168	63 494 699
Total 2022	**159 421 867**	**383 742 090**	**543 163 957**	**371 047 145**	**172 116 812**
Total 2020–21	171 267 413	790 640 000	961 907 413	802 485 546	159 421 867

Balance in US dollars at the United Nations rate of exchange for 31 December 2022 (0.923 Swiss francs to the dollar)	186 475 419
Less: prepayments of financial arrangements	(147 852)
Assessed contributions receivable in US dollars	186 327 567

[1] Excludes assessed contributions for 2022.

[2] Includes credits to member States in respect of:	2022
The incentive scheme for 2020	74 293
The incentive scheme for 2019	7 648 357
50 per cent Net Premium for 2018–19	6 968 092
50 per cent Net Premium for prior years	196 103
Surplus for prior years	33 933
Total credits	**14 920 778**

Note 30 – Assessed contributions – Detailed table

▶ Assessed contributions of Member States and amounts due by States for prior periods of membership in the ILO – Details for the year ending 31 December 2022 (in Swiss francs)

States	2022 Assessed contributions				Amounts due for previous financial periods				
	Assessed contributions (1)		Amount received or credited	Balance due as at 31.12.2022	Balance due as at 01.01.2022	Amount received in 2022	Balance due as at 31.12.2022	Calendar years of assessment	Total due as at 31.12.2022
	%	Amount							
Afghanistan (2)	0.007	26 862	370	26 492	94 043	-	94 043	2018–22	120 535
Albania	0.008	30 699	30 699	-	-	-	-		-
Algeria	0.138	529 564	529 564	-	-	-	-		-
Angola	0.010	38 374	2 196	36 178	38 805	-	38 805	2021–22	74 983
Antigua and Barbuda	0.002	7 675	317	7 358	11 561	-	11 561	2020–22	18 919
Argentina	0.916	3 515 078	65 644	3 449 434	7 198 741	3 577 810	3 620 931	2021–22	7 070 365
Armenia	0.007	26 862	26 862	-	-	-	-		-
Australia	2.211	8 484 538	8 484 538	-	-	-	-		-
Austria	0.677	2 597 934	2 597 934	-	-	-	-		-
Azerbaijan (4)	0.049	188 034	188 034	-	1 132 540	283 135	849 405	1997–2005	849 405
Bahamas	0.018	69 074	69 074	-	-	-	-		-
Bahrain	0.050	191 871	191 871	-	-	-	-		-
Bangladesh	0.010	38 374	34 692	3 682	1 281	1 281	-	2022	3 682
Barbados	0.007	26 862	26 862	-	-	-	-		-
Belarus	0.049	188 034	11 178	176 856	-	-	-	2022	176 856
Belgium	0.822	3 154 360	3 154 360	-	-	-	-		-
Belize	0.001	3 837	3 837	-	11 644	11 644	-		-
Benin	0.003	11 512	11 512	-	-	-	-		-
Bolivia (Plurinational State of)	0.016	61 399	1 569	59 830	126 502	20	126 482	2020–22	186 312
Bosnia and Herzegovina	0.012	46 049	46 049	-	-	-	-		-
Botswana	0.014	53 724	53 724	-	-	-	-		-
Brazil	2.949	11 316 554	-	11 316 554	21 956 036	727 193	21 228 843	2020–22	32 545 397

	2022 Assessed contributions				Amounts due for previous financial periods				
	Assessed contributions (1)		Amount received or	Balance due as at	Balance due as at	Amount received	Balance due as at	Calendar years of assessment	Total due as at
States	%	Amount	credited	31.12.2022	01.01.2022	in 2022	31.12.2022		31.12.2022
Brunei Darussalam	0.025	95 936	95 936	-	-	-	-		-
Bulgaria	0.046	176 521	176 521	-	-	-	-		-
Burkina Faso	0.003	11 512	11 512	-	-	-	-		-
Burundi	0.001	3 837	226	3 611	1 175	-	1 175	2021–22	4 786
Cabo Verde	0.001	3 837	2 711	1 126	-	-	-	2022	1 126
Cambodia	0.006	23 025	23 025	-	-	-	-		-
Cameroon	0.013	49 887	1 455	48 432	86 722	-	86 722	2020–22	135 154
Canada	2.735	10 495 346	10 495 346	-	-	-	-		-
Central African Republic (4)	0.001	3 837	3 655	182	16 384	8 192	8 192	2005–07 + 2022	8 374
Chad (2)	0.004	15 350	-	15 350	96 085	-	96 085	2016–22	111 435
Chile	0.407	1 561 830	1 561 830	-	-	-	-		-
China	12.010	46 087 425	44 954 826	1 132 599	-	-	-	2022	1 132 599
Colombia	0.288	1 105 177	1 105 177	-	-	-	-		-
Comoros (2)	0.001	3 837	-	3 837	479 343	-	479 343	1986–2022	483 180
Congo (2)	0.006	23 025	-	23 025	97 172	-	97 172	2017–2022	120 197
Cook Islands	0.001	3 837	3 837	-	-	-	-		-
Costa Rica	0.062	237 920	28 436	209 484	134 017	134 017	-	2022	209 484
Croatia	0.077	295 482	295 482	-	-	-	-		-
Cuba	0.080	306 994	9 161	297 833	320 790	7 114	313 676	2021–22	611 509
Cyprus	0.036	138 147	138 147	-	-	-	-		-
Czechia	0.311	1 193 438	1 193 438	-	-	-	-		-
Côte d'Ivoire	0.013	49 887	44 079	5 808	-	-	-	2022	5 808
Democratic Republic of the Congo	0.010	38 374	38 374	-	162 502	162 502	-		-
Denmark	0.554	2 125 931	2 125 931	-	-	-	-		-
Djibouti	0.001	3 837	3 837	-	7 791	7 791	-		-
Dominica (2)	0.001	3 837	13	3 824	45 393	-	45 393	2010–22	49 217
Dominican Republic	0.053	203 383	203 383	-	-	-	-		-
Ecuador	0.080	306 994	305 418	1 576	85 093	85 093	-	2022	1 576

States	2022 Assessed contributions: Assessed contributions (1) %	Amount	Amount received or credited	Balance due as at 31.12.2022	Amounts due for previous financial periods: Balance due as at 01.01.2022	Amount received in 2022	Balance due as at 31.12.2022	Calendar years of assessment	Total due as at 31.12.2022
Egypt	0.186	713 760	713 760	-	-	-	-		-
El Salvador	0.012	46 049	46 049	-	-	-	-		-
Equatorial Guinea (2)	0.016	61 399	-	61 399	127 762	-	127 762	2019–22	189 161
Eritrea	0.001	3 837	81	3 756	-	-	-	2022	3 756
Estonia	0.039	149 660	149 660	-	-	-	-		-
Eswatini	0.002	7 675	7 675	-	-	-	-		-
Ethiopia	0.010	38 374	38 374	-	40 559	40 559	-		-
Fiji	0.003	11 512	9 714	1 798	1 779	1 779	-	2022	1 798
Finland	0.421	1 615 554	1 615 554	-	-	-	-		-
France	4.429	16 995 937	16 995 937	-	-	-	-		-
Gabon	0.015	57 561	-	57 561	59 298	-	59 298	2021–22	116 859
Gambia (2)	0.001	3 837	1 079	2 758	20 244	-	20 244	2016–22	23 002
Georgia	0.008	30 699	30 699	-	-	-	-		-
Germany	6.093	23 381 406	23 381 406	-	-	-	-		-
Ghana	0.015	57 561	55 262	2 299	67 795	67 795	-	2022	2 299
Greece	0.366	1 404 496	1 404 496	-	17	17	-		-
Grenada	0.001	3 837	3 837	-	-	-	-		-
Guatemala	0.036	138 147	138 147	-	-	-	-		-
Guinea (2)	0.003	11 512	-	11 512	31 240	-	31 240	2018–22	42 752
Guinea-Bissau (2)	0.001	3 837	-	3 837	294 901	-	294 901	1992–2001 + 2003–22	298 738
Guyana	0.002	7 675	7 675	-	-	-	-		-
Haiti	0.003	11 512	11 512	-	-	-	-		-
Honduras	0.009	34 537	1 639	32 898	7 459	-	7 459	2021–22	40 357
Hungary	0.206	790 509	790 509	-	55 138	55 138	-		-
Iceland	0.028	107 448	107 448	-	-	-	-		-
India	0.835	3 204 247	3 204 247	-	-	-	-		-
Indonesia	0.543	2 083 720	2 083 720	-	-	-	-		-
Iran (Islamic Republic of) (2)	0.398	1 527 294	27 049	1 500 245	4 937 951	-	4 937 951	2019–22	6 438 196

States	2022 Assessed contributions				Amounts due for previous financial periods				
	Assessed contributions (1)		Amount received or credited	Balance due as at 31.12.2022	Balance due as at 01.01.2022	Amount received in 2022	Balance due as at 31.12.2022	Calendar years of assessment	Total due as at 31.12.2022
	%	Amount							
Iraq (4)	0.129	495 027	495 027	-	2 643 352	1 119 503	1 523 849	2002–07	1 523 849
Ireland	0.371	1 423 683	1 423 683	-	-	-	-		-
Israel	0.490	1 880 336	1 880 336	-	-	-	-		-
Italy	3.309	12 698 026	12 698 026	-	-	-	-		-
Jamaica	0.008	30 699	30 699	-	-	-	-		-
Japan	8.568	32 879 022	32 879 022	-	-	-	-		-
Jordan	0.021	80 586	80 586	-	-	-	-		-
Kazakhstan	0.178	683 061	683 061	-	-	-	-		-
Kenya	0.024	92 098	92 098	-	-	-	-		-
Kiribati	0.001	3 837	3 684	153	126	126	-	2022	153
Kuwait	0.252	967 030	967 030	-	-	-	-		-
Kyrgyzstan (4)	0.002	7 675	7 675	-	991 345	116 602	874 743	1993–2017	874 743
Lao People's Democratic Republic	0.005	19 187	19 187	-	-	-	-		-
Latvia	0.047	180 359	180 359	-	-	-	-		-
Lebanon	0.047	180 359	6 259	174 100	248 993	-	248 993	2020–22	423 093
Lesotho	0.001	3 837	3 837	-	-	-	-		-
Liberia	0.001	3 837	3 837	-	-	-	-		-
Libya (2)	0.030	115 123	8 733	106 390	1 185 725	475 373	710 352	2019–22	816 742
Lithuania	0.071	272 457	272 457	-	-	-	-		-
Luxembourg	0.067	257 107	257 107	-	-	-	-		-
Madagascar	0.004	15 350	238	15 112	31 247	14 245	17 002	2020–22	32 114
Malawi	0.002	7 675	131	7 544	16 503	7 095	9 408	2020–22	16 952
Malaysia	0.341	1 308 561	1 308 561	-	-	-	-		-
Maldives	0.004	15 350	15 350	-	-	-	-		-
Mali	0.004	15 350	15 350	-	-	-	-		-
Malta	0.017	65 236	65 236	-	-	-	-		-
Marshall Islands	0.001	3 837	3 837	-	3 953	3 953	-		-
Mauritania	0.002	7 675	7 675	-	-	-	-		-

States	2022 Assessed contributions: Assessed contributions (1) %	Amount	Amount received or credited	Balance due as at 31.12.2022	Amounts due for previous financial periods: Balance due as at 01.01.2022	Amount received in 2022	Balance due as at 31.12.2022	Calendar years of assessment	Total due as at 31.12.2022
Mauritius	0.011	42 212	42 212	-	-	-	-		-
Mexico	1.293	4 961 785	105 559	4 856 226	-	-	-	2022	4 856 226
Mongolia	0.005	19 187	476	18 711	-	-	-	2022	18 711
Montenegro	0.004	15 350	15 350	-	-	-	-		-
Morocco	0.055	211 058	211 058	-	-	-	-		-
Mozambique	0.004	15 350	15 350	-	-	-	-		-
Myanmar	0.010	38 374	38 374	-	-	-	-		-
Namibia	0.009	34 537	34 537	-	-	-	-		-
Nepal	0.007	26 862	441	26 421	27 828	-	27 828	2020–22	54 249
Netherlands	1.357	5 207 380	5 207 380	-	-	-	-		-
New Zealand	0.291	1 116 690	1 116 690	-	-	-	-		-
Nicaragua	0.005	19 187	19 187	-	-	-	-		-
Niger	0.002	7 675	287	7 388	12 772	-	12 772	2020–22	20 160
Nigeria	0.250	959 355	752 216	207 139	1 205 798	1 205 798	-	2022	207 139
North Macedonia	0.007	26 862	26 862	-	-	-	-		-
Norway	0.754	2 893 415	2 893 415	-	-	-	-		-
Oman	0.115	441 303	441 303	-	-	-	-		-
Pakistan	0.115	441 303	261 604	179 699	21 027	21 027	-	2022	179 699
Palau (2)	0.001	3 837	-	3 837	15 681	-	15 681	2017–22	19 518
Panama	0.045	172 684	172 684	-	-	-	-		-
Papua New Guinea (2)	0.010	38 374	262	38 112	94 276	-	94 276	2019–22	132 388
Paraguay (4)	0.016	61 399	3 686	57 713	319 133	105 827	213 306	2001–03 + 2011–13 + 2022	271 019
Peru	0.152	583 288	583 288	-	754 222	754 222	-		-
Philippines	0.205	786 671	786 671	-	-	-	-		-
Poland	0.802	3 077 612	3 077 612	-	-	-	-		-
Portugal	0.350	1 343 097	1 343 097	-	-	-	-		-
Qatar	0.282	1 082 153	1 082 153	-	-	-	-		-
Republic of Korea	2.268	8 703 271	8 703 271	-	703 891	703 891	-		-

States	2022 Assessed contributions: Assessed contributions (1) %	Amount	Amount received or credited	Balance due as at 31.12.2022	Amounts due for previous financial periods: Balance due as at 01.01.2022	Amount received in 2022	Balance due as at 31.12.2022	Calendar years of assessment	Total due as at 31.12.2022
Republic of Moldova (4)	0.003	11 512	11 512	-	545 868	136 467	409 401	1998–2004	409 401
Romania	0.198	759 809	759 809	-	-	-	-		-
Russian Federation	2.406	9 232 835	9 232 835	-	-	-	-		-
Rwanda	0.003	11 512	11 512	-	11 860	11 860	-		-
Saint Kitts and Nevis	0.001	3 837	3 837	-	6	6	-		-
Saint Lucia	0.001	3 837	74	3 763	-	-	-	2022	3 763
Saint Vincent and the Grenadines	0.001	3 837	3 837	-	-	-	-		-
Samoa	0.001	3 837	3 837	-	-	-	-		-
San Marino	0.002	7 675	7 675	-	-	-	-		-
Sao Tome and Principe (2)	0.001	3 837	-	3 837	212 603	-	212 603	1995–2022	216 440
Saudi Arabia	1.173	4 501 295	4 501 295	-	-	-	-		-
Senegal	0.007	26 862	728	26 134	28 341	-	28 341	2020–22	54 475
Serbia	0.028	107 448	107 448	-	-	-	-		-
Seychelles	0.002	7 675	7 675	-	-	-	-		-
Sierra Leone (4)	0.001	3 837	2 935	902	240 142	14 050	226 092	1994–2019 + 2022	226 994
Singapore	0.485	1 861 149	1 861 149	-	-	-	-		-
Slovakia	0.153	587 126	587 126	-	-	-	-		-
Slovenia	0.076	291 644	291 644	-	-	-	-		-
Solomon Islands (2)	0.001	3 837	30	3 807	23 174	-	23 174	2015–22	26 981
Somalia (4)	0.001	3 837	3 837	-	389 055	32 509	356 546	1990–2019	356 546
South Africa	0.272	1 043 779	1 043 779	-	-	-	-		-
South Sudan	0.006	23 025	23 025	-	-	-	-		-
Spain	2.147	8 238 943	8 238 943	-	-	-	-		-
Sri Lanka	0.044	168 847	168 847	-	-	-	-		-
Sudan (2)	0.010	38 374	654	37 720	98 457	-	98 457	2019–22	136 177
Suriname	0.005	19 187	768	18 419	15 874	-	15 874	2021–22	34 293
Sweden	0.907	3 480 541	3 480 541	-	-	-	-		-
Switzerland	1.152	4 420 709	4 420 709	-	-	-	-		-

States	2022 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2022
	Assessed contributions (1) %	Amount	Amount received or credited	Balance due as at 31.12.2022	Balance due as at 01.01.2022	Amount received in 2022	Balance due as at 31.12.2022		
Syrian Arab Republic	0.011	42 212	-	42 212	82 919	54 823	28 096	2021–22	70 308
Tajikistan (2)	0.004	15 350	-	15 350	396 352	125 000	271 352	1998–2022	286 702
Thailand	0.307	1 178 088	1 178 088	-	-	-	-		-
Timor-Leste	0.002	7 675	-	7 675	4	-	4	2021–22	7 679
Togo	0.002	7 675	1 645	6 030	-	-	-	2022	6 030
Tonga	0.001	3 837	3 837	-	7 871	7 871	-		-
Trinidad and Tobago	0.040	153 497	153 497	-	-	-	-		-
Tunisia	0.025	95 936	95 936	-	-	-	-		-
Turkmenistan	0.033	126 635	126 635	-	-	-	-		-
Tuvalu (2)	0.001	3 837	-	3 837	15 557	-	15 557	2017–22	19 394
Türkiye	1.372	5 264 942	5 264 942	-	-	-	-		-
Uganda	0.008	30 699	1 273	29 426	31 557	-	31 557	2021–22	60 983
Ukraine	0.057	218 733	218 733	-	-	-	-		-
United Arab Emirates	0.616	2 363 851	2 363 851	-	-	-	-		-
United Kingdom	4.569	17 533 176	17 533 176	-	-	-	-		-
United Republic of Tanzania	0.010	38 374	38 374	-	-	-	-		-
United States	22.000	84 423 260	3 056 317	81 366 943	85 531 289	85 531 289	-	2022	81 366 943
Uruguay	0.087	333 856	333 856	-	-	-	-		-
Uzbekistan (4)	0.032	122 798	122 554	244	746 916	297 516	449 400	2004–14 + 2022	449 644
Vanuatu	0.001	3 837	65	3 772	8 077	8 077	-	2022	3 772
Venezuela (Bolivarian Republic of) (2)	0.728	2 793 643	-	2 793 643	18 152 560	-	18 152 560	2014–22	20 946 203
Viet Nam	0.077	295 482	295 482	-	-	-	-		-
Yemen (2)	0.010	38 374	-	38 374	230 836	-	230 836	2016–22	269 210
Zambia	0.009	34 537	32 888	1 649	8 958	8 958	-	2022	1 649
Zimbabwe	0.005	19 187	490	18 697	4 267	-	4 267	2022	22 964
Total Member States	**100.000**	**383 742 090**	**275 119 977**	**108 622 113**	**152 806 178**	**95 927 168**	**56 879 010**		**165 501 123**

States	2022 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2022
	Assessed contributions (1) %	Amount	Amount received or credited	Balance due as at 31.12.2022	Balance due as at 01.01.2022	Amount received in 2022	Balance due as at 31.12.2022		
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		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	**100.000**	**383 742 090**	**275 119 977**	**108 622 113**	**159 421 867**	**95 927 168**	**63 494 699**		**172 116 812**

(1) **Assessed contributions for 2022.** Represents contributions assessed with the approval of the 2022–23 budget.

(2) **Member States which, at 31 December 2022, have lost the right to vote under the provisions of article 13(4) 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 (2020–21). Each of these Member States had therefore lost the right to vote, in accordance with the provisions of article 13(4) of the Constitution of the Organization.

(3) **Financial arrangement: Paraguay (prior membership of the ILO).** Paraguay owes CHF245,066 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 International Labour Conference 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
Azerbaijan	95th (2006)
Central African Republic	97th (2008)
Iraq	97th (2008)
Kyrgyzstan	106th (2017)
Paraguay	102nd (2013)
Republic of Moldova	93rd (2005)
Sierra Leone	108th (2019)
Somalia	108th (2019)
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. Report of the External Auditor to the Governing Body on the financial operations of the International Labour Organization for the year ended 31 December 2022

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

To the Governing Body of the International Labour Office:

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 2022.

Our report contains the results of our audit of the 2022 financial statements, and our observations and recommendations on the review of the Bureau for Employers' Activities (ACT/EMP), the Bureau for Workers' Activities (ACTRAV), the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR), procurement management as well as on the review of control activities in five ILO country offices. Value-adding recommendations were communicated and discussed with Management to further enhance efficient and effective management of the Organization.

Our audit was conducted in accordance with the International Standards on Auditing and the International Standards for Supreme Audit Institutions. We addressed the matters relative to the review of the Organization's financial statements that came to our attention during the audit that we believe the Governing Body of the Organization should be aware of. We will be pleased to elaborate on any of these key matters during the Governing Body meeting in May 2023.

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.

Yours sincerely,

[*Signed*] **GAMALIEL A. CORDOBA**

Chairperson, Commission on Audit, Republic of the Philippines

External Auditor

Quezon City, Philippines

14 April 2023

Commission on Audit
Office of the Chairperson
23-086102091219

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 2022

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 2022

Contents

List of acronyms

ACT/EMP	Bureau for Employers' Activities
ACTRAV	Bureau for Workers' Activities
BoC	Beginning of Cycle
BUD/DC	Development Cooperation Budget Unit
Bureaux	ACTRAV and ACT/EMP
CINTERFOR	Inter-American Centre for Knowledge Development in Vocational Training
CO	Country Office
COA	Commission on Audit
COSO	Committee of Sponsoring Organizations of the Treadway Commission
COVID-19	Coronavirus Disease 2019
CPO	Country Programme Outcome
C/RASs	Chiefs of Regional Administrative Services
CIPFA	Chartered Institute of Public Finance and Accountancy
DC	Development Cooperation
DCLJ	Development Cooperation Learning Journeys
DG	Director-General
DWCP	Decent Work Country Programmes
DWT	Decent Work Technical Support Team
EBMO	Employer and Business Membership Organizations
EoC	End of Cycle
ERP	Enterprise Resource Planning
EVAL	Evaluation Office
ExCol	External Collaboration
FUNDAMENTALS	Fundamental Principles and Rights at Work Branch
F&E	Furniture and Equipment
GEND	Gender Equality and Non-discrimination
GP	Global Products
HPRC	Headquarters Procurement Review Committee
HQ	Headquarters
HR/TALENT	Talent Management Branch
HRD	Human Resource Development Department
IA	Implementation Agreement
IAO	Office of Internal Audit and Oversight
ICF	Internal Control Framework
IG	Internal Governance
IGDS	Internal Governance Documents System
ILO	International Labour Organization
INI	Physical Inventory Management System
INTOSAI	International Organization of Supreme Audit Institutions
IOAC	Independent Oversight Advisory Committee
IP	Implementing Partners

IPSAS	International Public Sector Accounting Standards
IRIS	Integrated Resource Information System
ISA	International Standards on Auditing
ITC–ILO	International Training Centre of the ILO
IWMS	Integrated Workplace Management System
JIU	Joint Inspection Unit
JNC	Joint Negotiating Committee
KPI	Key Performance Indicator
MSMEs	Micro, small and medium-sized enterprises
OBW	Outcome-based Workplan
OCT	Outcome Coordinating Team
OPP	Organization Procurement Plan
P&B	Programme and Budget
P2P	Procure-to-Pay
PARDEV	Partnerships and Field Support Department
PIR	Programme Implementation Report
PO	Purchase Order
PROCUREMENT	Procurement Bureau
PROGRAM	Strategic Programming and Management Department
RBM	Results-based Management
RBSA	Regular Budget Supplementary Account
RBTC	Regular Budget Technical Cooperation
SHIF	Staff Health Insurance Fund
SMART	Specific, Measurable, Achievable, Relevant and Time bound
SOP	Standard Operating Procedure
SWAP	United Nations System-wide Action Plan
TOR	Terms of Reference
TR/CF	Treasurer and Financial Comptroller
UN	United Nations
UNGM	UN Global Marketplace
UNICEF	United Nations Children’s Fund
UNMRR	UN Mutual Recognition of Rosters
UNPPH	UN Procurement Practitioner’s Handbook
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSPSC	UN Standard Products and Services Code
VAT	Value Added Tax
XBDC	Extra-budgetary Development 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 third audit report to the Governing Body by the Chairperson of the Commission on Audit of the Republic of the Philippines, under its new mandate as the External Auditor for the 77th and 78th financial periods that commenced on 1 April 2020 for a period of four years (2020-2023), granted by the Governing Body during its 334th Session on 25 October to 8 November 2018.

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 and provided recommendations to further improve the efficiency and effectiveness of management operations and add value to the ILO's governance.

Overall results of the audit

In line with our mandate, we audited the financial statements of the 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. We concluded that the financial statements present fairly, in all material respects, the financial position of the ILO for the financial year ended 31 December 2022, and its financial performance, changes in net assets, cash flows, and comparison of budget and actual amounts, in accordance with the International Public Sector Accounting Standards (IPSAS). As a result, we issued an unmodified audit opinion on the Organization's financial statements for the financial year ended 31 December 2022.

We also concluded that accounting policies were applied on a basis consistent with that of the preceding year, and that 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 audits on the: ((a) ILO Decent Work Technical Support Team (DWT) for Central Africa and Country Office (CO) for Cameroon, Sao Tome and Principe, and Equatorial Guinea (DWT/CO – Yaoundé); (b) ILO DWT for West Africa and CO for Senegal, Cabo Verde, the Gambia, Guinea and Guinea-Bissau (DWT/CO – Dakar); (c) Inter-American Centre for Knowledge Development in Vocational Training (ILO – CINTERFOR); (d) ILO DWT and Office for the Caribbean (DWT/CO – Port of Spain); (e) ILO DWT and CO for Central and Eastern Europe (DWT/CO – Budapest); and (f) ILO Liaison Office in Myanmar (ILO – Yangon). Likewise, we conducted an audit on the financial statements and operations of the International Training Centre of the ILO (ITC-ILO) in Turin, which is consolidated in the ILO financial statements.

Further, we reviewed Procurement management, and operations of Bureau for Employers' Activities (ACT/EMP) and Bureau for Workers' Activities (ACTRAV) in line with our mandate 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 the Organization.

Improvement opportunities on the strategies, policies and procedures in programme delivery were noted and recommendations were provided to further improve operational efficiency and achieve the Organization's objectives.

Key audit findings

The audit for financial year resulted in the following key audit observations which need to be addressed by the ILO Management:

Review of the operations of ACT/EMP and ACTRAV (the Bureaux)

a. The Bureaux are reporting directly to the Director-General (DG) and have important role in the tripartite structure of the ILO as embodied in their Terms of Reference (TOR). They are however perceived as an office external to ILO and more to be part of the workers' or employers' organization. A Strategy Framework document that sets out important areas of operations was not prepared for ACT/EMP while ACTRAV did not consider the areas of programme and human resource management on its Strategy Framework. There was insufficient understanding and capacity of field staff on programming cycle and reporting and monitoring mechanisms.

b. The Bureaux have a global presence but subscribed to flat organizational structure resulting to unclear arrangement of authority and responsibility as there are few or no levels of middle management between the staff and the Director. We noted the absence of staff learning and development plans as well as the lack of integrated and office-wide coordination for the Bureaux' resource mobilization strategies. Correspondingly, there was also a low compliance rate for performance appraisal exercises of ACT/EMP, while risk identification and assessment for ACTRAV was apparently inconsistent with the current Risk Management Manual.

Review of procurement management

c. The ILO procurement management progresses towards digitization. It was noted however that the three systems involved, the Organizational Procurement Planning (OPP), the *e*Sourcing platform (Jaggaer), and the Enterprise Resource Planning (ERP)- Integrated Resource Information System (IRIS) require interfacing. In addition, the Jaggaer's functionality is incomplete with the direct solicitation method of procurement, and contract and vendor management. The procurement plans through the OPP are detached to the principles of results-based management (RBM) as the procurement plans were not linked to the corresponding outcomes.

d. Procurement activities with amounts below USD50,000.00 are fully delegated to ILO units and field offices but wanting of a procurement plan weakening global procurement monitoring and reporting. Spend analysis is deficient with the identification of key performance indicators (KPIs) for a more meaningful analysis that facilitate the planning of procurement, managing tail spend and advancing sustainable procurement. There were no defined timelines for each of the stages of the procurement process.

Review of the field offices' operations

e. Improvement of operations in the field offices is a continuing process. We noted occasional deviations on compliance with control mechanisms, rules, and procedures prescribed by ILO in the field offices' operations and key processes, which can impact the integrity of financial and accounting information, promotion of accountability, and prevention of fraud.

f. There was inadequacy of capability building for field officers and staff in terms of identification, assessment, and contextualization of risks, and there was a need to improve adherence to the Risk Management Manual.

Summary of recommendations

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

Review of the operations of ACT/EMP and ACTRAV

a. **highlight the visibility of ACTRAV and ACT/EMP and make these Bureaux more entrenched within the ILO's operation, by: (a) including in the staff orientation activities for new staff and capacity building activities, especially for ILO Managers, sessions on the services and operation of both Bureaux; (b) enhancing the Bureaux' position and association with the ILO through its communication and publications, utilizing ILO's digital platforms; and (c) ensure that the requirements of robust consultations with the Bureaux are established in all the stages of programme or project design and appraisal (Para. 32);**

b. **enhance the Strategy Framework of ACTRAV to include specific procedures and processes regarding the management of programme implementation and human resources, to strengthen collaboration and integration of its strategy with that of the other technical department/units/offices of ILO (Para. 38);**

c. **develop a structured governance framework that details essential information on ACT/EMP-specific strategies/policies; structure, role, and functions, including its engagement with Employer and Business Membership Organizations (EBMOs); and resource mobilization pathways with the purpose of developing the Bureau's overarching guidance document (Para. 43);**

d. **fully embed the principles of RBM and enhance reporting and monitoring of results, by: (a) enhancing coordination in the field offices for the necessary changes in Country Programme Outcome (CPO) status during Outcome-based Workplan (OBW) reviews, thus, ensure the integrity of information being reported as a result of its programme delivery; (b) establishing a more comprehensive capacity building activities on programming, in accordance with the strategic direction of the Human Resource Development Department (HRD), hence, enhance the capacity of its staff on the important principles of results reporting; and (c) implementing individual work planning activities among ACTRAV Staff (Para. 50);**

e. **enhance the accountability process of regularly uploading and updating CPO and Global Product (GP) information, including its deliverables, and the linking of CPOs with the output indicators in the SM/IP by: (a) ensuring compliance by ACT/EMP Specialist on GPs; (b) strengthened coordination and consultation between ACT/EMP Specialist and NPOs on**

CPOs; and (c) robust and regular monitoring by the ACT/EMP Management and Output 1.1 focal point (Para. 55);

f. **develop a more detailed and defined organizational structure for ACTRAV and ACT/EMP to support enhanced coordination of activities within and outside the Bureaux as well as establish specific function, roles and responsibilities of staff, and elaborate interrelationships of teams and field officers to facilitate efficiency in their respective processes and to better uphold the principles embedded in the ILO accountability framework (Para. 64);**

g. **enhance its staff development activities by establishing a staff learning and development plan or strategy for ACTRAV and ACT/EMP in consonance with the overall skills mapping exercise of HRD, and provide as one of the performance indicators of each staff the requirement of capacity building in the staff performance evaluation (Para. 71);**

h. **establish a well-coordinated and systematic resource mobilization strategy with the clear definition of the roles of Partnerships and Field Support Department (PARDEV), the Bureaux and other technical units, and field offices to strengthen the support for the employers and workers organizations and opportunity for a successful collaboration with donors and funding partners (Para. 80);**

i. **revisit and update ACTRAV risk register to incorporate the clearly defined elements for improved decision-making processes and to ensure compliance with the ILO Risk Management Framework (Para. 85);**

j. **strengthen the rigorous and results-based practice of conducting performance evaluations in ACT/EMP and monitor the compliance rate of performance appraisals as publicized in ILO People, to properly manage staff performance activities (Para. 89);**

Review of procurement management

k. **develop a concrete plan and strategy to fully integrate the electronic applications and solutions involved in its procurement management and work towards systems interface, to facilitate efficient procurement process and data management, and improve related strategic and tactical decisions (Para. 103);**

l. **pursue its plan on the inclusion of procurement functionalities for waiver requests, and vendor and contract management into the Jaggaer, to harness its full potential and to ultimately improve procurement transparency, accountability, and overall procurement governance (Para. 107);**

m. **strengthen the principles of RBM in its procurement processes by establishing a direct linkage of its procurement activities to specific outcomes in the Programme and Budget (P&B), through the procurement planning exercise (Para. 112);**

n. **enhance the Procurement Bureau (PROCUREMENT) functional structure through the augmentation of staff in the review and monitoring function at strategic regional location over the procurement activities of other units and field offices, to better achieve efficiency**

and effectiveness on its procurement activities and to ensure that the principles of accountability and internal control are observed on the procurement processes (Para. 119);

o. **emphasize and disseminate to the ILO Headquarters (HQ) units and field offices the need for appropriate and timely planning of procurement activities with estimated value not exceeding USD50,000.00 and establish a mechanism to monitor the preparation and submission of such procurement plan to enhance accountability and internal control over the procurement processes (Para. 125);**

p. **refine the development of spend analysis by including KPIs, among others, as preparatory to procurement planning, management of tail spend and attainment of sustainable procurement, thus achieve economy and efficiency in ILO procurement (Para. 130);**

q. **facilitate the issuance of a revised Internal Governance Documents System (IGDS) 240, with emphasis on the timeline for the completion of the procurement review and defined indicative timeline for bid evaluation function, as part of its procurement guidelines, taking into consideration the factors that affect its procurement processing time, to achieve efficiency in its procurement processes (Para. 135);**

Control environment in field offices

r. **update the Orientation and Operational Manual of the Liaison Office and develop an operational guide for CINTERFOR that will provide relevant over-arching documents to guide the relevant actors in clearly understanding the operations of said offices for enhanced governance (Para. 147);**

s. **address the challenges or factors causing non-compliance, through clear, open, and continuous communication lines and feedback loops between and among HQ and field offices, strengthening monitoring control mechanisms, and providing capacity building activities to strengthen control activities in the field offices (Para. 158); and**

t. **address the observed improvement opportunities through efficient and effective monitoring by HQ and Regional Offices and providing training to field staff to ensure robust implementation of risk management in the field offices (Para. 165).**

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 124-year-old Supreme Audit Institution is an active member of the International Organization of Supreme Audit Institutions (INTOSAI) and the Panel of External Auditors of the United Nations (UN). The COA is extensively involved in setting accounting and auditing standards, building capacity, and sharing knowledge. It has had extensive experience in providing external audit services to international organizations for the past 40 years.

2. At its 334th Session on 25 October to 8 November 2018, the Governing Body of the ILO appointed the Chairperson of the COA of the Republic of the Philippines as External Auditor of the ILO for the 77th and 78th financial periods that commenced on 1 April 2020 for a period of four years (2020-2023). Chapter IX of the ILO Financial Regulations elaborates on the TOR governing external audit. The regulations require that the External Auditor report to the International Labour Conference through the Governing Body on the audit of the annual financial statements and on other information that should be brought to its attention regarding Article 36, paragraph 2, and in the additional terms of reference.

Audit scope and objectives

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; (d) 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 2022 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, on procurement management, ACT/EMP and ACTRAV and the operations of field offices.

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 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. A 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. In the review of internal controls, we adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. The framework has been accepted by external auditors for its comprehensiveness, effectiveness, and universal principles of strong 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 misstatements including those caused by fraud or error.

10. During the financial year 2022, in addition to the audit of the financial statements, we also conducted audits on the: (a) DWT/CO – Yaoundé; (b) DWT/CO – Dakar; (c) ILO – CINTERFOR; (d) DWT/CO – Port of Spain; (e) DWT/CO – Budapest; and (f) ILO – Yangon. In addition, we conducted an audit on the financial operations of the ITC-ILO in Turin.

11. We coordinated with the Office of 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 its 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. AUDIT RESULTS

13. This section of the report discusses our observations on financial and governance matters in line with Article 36, paragraph 2, 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. ILO management was afforded the opportunity to comment on our audit observations. Value-adding recommendations were communicated to ILO Management to help enhance the efficient and effective management of the Organization.

1. Audit of financial statements

14. We audited the financial statements in accordance with the ISA and we concluded that the financial statements present fairly, in all material respects, the financial position of the ILO for the financial year ended 31 December 2022, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts are in accordance with the IPSAS. As such, we issued an unmodified opinion on the ILO's financial statements. The statements audited were as follows:

a) Statement I. Statement of financial position;

b) Statement II. Statement of financial performance;

c) Statement III. Statement of changes in net assets/equity;

d) Statement IV. Statement of cash flow; and

e) Statement V. Statement of comparison of budget and actual amounts.

15. In addition, we concluded that the accounting policies enumerated in Note 2 of the Notes to Financial Statements were applied on a basis consistent with that of the preceding year. We also concluded that 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 ILO Financial Regulations and legislative authority.

16. We appreciate the efforts taken by ILO Management to address several recommendations issued during the interim and year-end audits of the ILO 2022 financial statements to present fairly the balances of the affected accounts and improve the presentation and disclosures in compliance with IPSAS.

2. Review of the operations of Bureau for Employers’ Activities and Bureau for Workers Activities

17. Tripartism is unique to ILO amongst the UN agencies since its foundation in 1919, where governments, employers, and workers should have equal voice and equal access under the domain of the organization. It has been the defining characteristic of the ILO in fulfilling its social mandate. The ILO’s Strategic Plan 2022–25 overarching objective is to apply the provisions of the Centenary Declaration for a human-centered recovery from the impact of the COVID-19 pandemic and leveraging on permanent comparative advantages of tripartism. The Strategic Plan emphasized that *the ILO must sustain and promote tripartism in its own working methods and decision-making.* The review covered the operation of the vital tripartite arms of ILO, the ACTRAV, and the ACT/EMP.

18. The ACTRAV is the main link between the ILO and the workers' organizations, and it ensures that the concerns and interests of workers' organizations are taken into consideration in the policy development and other activities of the ILO, both at HQ and in the field offices. ACT/EMP on the other hand, has a role to bring the policy knowledge and experience, priorities, and needs of employers' constituents to the organization so that ILO have access to that knowledge, at the same time, design policies and programmes that respond to the constituent needs.

19. With the guidance of the ILO's Strategy Text under Output 1.2 of the P&B, the ILO through ACTRAV is supporting workers' organization, through: (a) direct support to workers' organization at the national, regional, global, and sectoral levels spanning all outcomes of the ILO results framework; (b) assistance to worker constituents in ILO governing organs and tripartite policy-making bodies; and (c) work with technical units to mainstream the policy perspectives of worker constituents into other outcomes and programmes. For its part, the ACT/EMP main functions are: (a) to liaise with the employer constituents at the national and regional levels. ACT/EMP's work in the field is based on the needs and priorities of the organization and then further working on the three areas (governance, services, and policy development) of the P&B as outlined in Output 1.1; (b) to have knowledge on what is going on with the employer constituents such as their priority areas or policies or challenges they face in the enabling business environment, without telling them what to do, including anticipation of what policies or solutions that their members may be looking at; and (c) to work with all other outcomes across the Office.

20. Both ACTRAV and ACT/EMP are headed by a Director with a Deputy Director, and their global operation being undertaken by their respective staff located both in the HQ and field offices, including ITC-ILO. For ACTRAV, it has a total global staff compliment of 51, on the other hand, ACT/EMP has a total of 32.

21. The review covered the operations of the Bureaux for the financial year 2020-2022. The general objectives of the review include assessment of the plans and actions taken by ILO amidst the COVID-19 pandemic in terms of adequacy and efficiency of its cross-cutting policies, framework, and strategy. The audit also aimed at determining whether the programme and project of the Bureaux on Policy Outcomes, specifically, Outcome 1, are continuously implemented, delivered, and expected outcomes are achieved as targeted in consonance with the Centenary Declaration amidst the global health and economic crisis and adopting to the current business environment of delivering results and impact with the available and adequate resources.

22. In the review, understanding of the nature and its operational processes of both Bureaux was undertaken through engagement with their staff and review of related literatures. The understanding obtained was associated with the governance principles embedded within the ILO, namely: accountability, risk management, and internal control. The review was focused mainly on: (a) the adequacy and efficiency of its policy, strategy, and framework; (b) achievement and delivery of outcome including reporting and monitoring of results; (c) adequacy and delivery of both financial and human resources; and (d) compliance with related ILO regulation, rules, and legislative authority.

23. As a result of the review, we highlighted several courses of action for the processes and operation of the Bureaux to be more transparent and embedded with the principles of accountability, detailed as follows:

2.1 Policy, strategy, and framework

2.1.1 Visibility of the ACTRAV and ACT/EMP (the Bureaux)

24. The mandate of the two Bureaux is captured in their TOR presented in IGDS 536 dated 5 October 2018. The IGDS recapitulates and provides generally the structure, key roles, and functions of both Bureaux and how they and other units of the ILO should work together. The IGDS also provides an update to the "Guidelines for consultations with the Bureaux for Employers' and Workers' Activities" which was presented as information to the Governing Body based on its request to the DG to develop clear guidelines for consultations and for facilitating the relationships between all departments and the Bureaux in 2005. Accordingly, the roles and functions of the Bureaux cut across all policy outcomes, cross-cutting policy drivers and enabling outcomes in four main areas: (a) policy development and implementation; (b) development cooperation (DC); (c) research; and (d) ILO meetings and activities at country, regional and global levels. It was highlighted in the IGDS that by effectively exercising their role, the Bureaux makes a major contribution to realizing tripartism as a comparative advantage. The two-way interaction between the Bureaux and other units enables the Office (ILO) to be responsive to employer and worker constituents, while at the same time the Bureaux also provides services to worker and employer constituents.

25. It was gathered during the audit that ACTRAV and ACT/EMP are part of the ILO, both as an office and as an organization. They are taking part of the ILO as an Office since they are organic offices with dedicated staff, offer technical assistance and capacity development to employers' and workers' organizations, and provide the whole of the Office with critical insights on the priorities, challenges, and concerns of social partners. On the other hand, they are part of the ILO as an organization because they serve as the main link of the ILO Secretariat to the workers' and employers' groups of the organization. It was noted that the main challenge that the two Bureaux are facing at present is the perception within the ILO. As an Office, the Bureaux were perceived as nuisance rather than the core offices to realize the principle of tripartism and "police forces" rather than key partners to achieve the ILO's mandate. In other terms, the Bureaux have been perceived as an office apart from the ILO and more to be part of the workers' or employers' organization, to which they liaise. Consequentially, coordination, collaboration, and communication with the Bureaux are rather on an ad-hoc or untenable basis and with certain confusion as to when each Bureaux will be involved in the technical departments' respective processes.

26. A reason for this perception might be the distinct positioning of the Bureaux within the structure of the Organization since both Bureaux were placed in direct reporting line with the DG, along with other Offices, while maintaining its position as a direct link of ILO to the workers' and employers' organization. In essence, this created a dual responsibility for the Bureaux being part of the ILO and acting as the liaison of the workers' or employers' organization. We nevertheless gathered several courses of action to somehow resolve the current rapport of the Bureaux with the other units of the

Office. We highlighted recommendations for ACTRAV and ACT/EMP processes for both to be more transparent, with clear accountability.

27. It is advantageous for the inclusion in the HRD-organized staff orientation activities the services being provided by both the Bureaux not only as an Office in ILO, but also as the representative of the workers' and employers' group of the tripartite. We observed that the new staff of ILO may be in a quandary as to the existence and operation of the Bureaux. Capacity building activity for new managers is also suggested to include a session supported by the Bureaux. With the tripartite nature of ILO's works, collaboration, and consultation with the ACTRAV and ACT/EMP is vital.

28. Another area that can be explored is for both the internal and external stakeholders to have a good sense of associating the Bureaux with ILO as an Office. This can be done through the communication and publications of ILO. To cite an example, in the ILO Intranet, both the ACTRAV and ACT/EMP are rather obscure and information pertaining to the Bureaux can be found after accessing several pages, such as the DG's page. This can be improved if at the home page of the ILO Intranet where the information regarding the Bureaux and their services, can be readily seen and accessed. This can also be applied to the official website of ILO and to its other publication.

29. Moreover, in the development of Decent Work Country Programmes (DWCPs), we gathered that the engagement of ACTRAV and ACT/EMP specialists was not consistent because there were DWCPs that were not consulted with the specialists. The dilemma also persists in DC projects because there are instances that the specialists were not consulted or if ever, they have been consulted, the same was made during the appraisal stage when incorporation of the views of employers' and workers' constituents was no longer feasible. As explained by the Bureaux, this situation could be very well addressed through early consultation and engagement of specialists and other technical departments/offices of ILO at the DC project development phase and throughout the project cycle.

30. The ACTRAV and ACT/EMP believe in promoting wide awareness of the Bureaux mandate, together with the distinct roles of the workers' and employers' constituents they represent, in the achievement of their respective objectives. Both Bureaux viewed that the problem lies not in the TOR but with the present organizational culture, and the reception of other units of ILO, among others.

31. The transition in ILO leadership with the onboarding of the new DG is an opportune time for the transformation of the current visibility of the Bureaux in alignment with the present leadership pathway. It was gathered that the new DG is placing a high premium on the importance of working as One ILO. This is evident in the introduction of revised organizational structure which embodies close collaboration and coordination across departments and regions. This opportunity should be seized to advance the objective of having ACTRAV and ACT/EMP to be more distinct yet pronounced within the ILO as an Office to apply and operate the TOR of the two Bureaux thus, harness the comparative advantage of tripartism.

32. **We recommended that ILO should highlight the visibility of ACTRAV and ACT/EMP and make these Bureaux more entrenched within the ILO's operation, by:**

a. including in the staff orientation activities for new staff and capacity building activities, especially for ILO Managers, sessions on the services and operation of both Bureaux;

b. enhancing the Bureaux' position and association with the ILO through its communication and publications, utilizing ILO's digital platforms; and

c. ensure that the requirements of robust consultations with the Bureaux are established in all the stages of programme or project design and appraisal.

33. **ILO Response:** The recommendation is accepted. Both Bureaux and the Office in general are committed to exploring ways to further raise awareness of their role. With regard to staff orientation, the most recent orientation workshop for new ILO staff was held in November 2022 which included a dedicated session on the role of the two Bureaux. In addition, the Office will continue to involve the two Bureaux in the orientation sessions for new representatives of the permanent missions in Geneva to promote the role of tripartism and social partners. With regard to communications through digital platforms, ACTRAV will review and ensure better visibility of its presence on the ILO intra- and internet, while ACT/EMP will continue to enhance its communication and publication visibility by broadening the outreach of its e-newsletters. With regard to robust consultations in programme and project design and appraisal, the Office considers that the "ILO Decent Work Country Programmes Guidance 2020 - Review and Approval Process" and the "Development Cooperation Internal Governance Manual" adequately reflect the mandatory involvement of the two Bureaux and the social partners in the design, implementation, monitoring, and evaluation of the DWCPs and projects. PARDEV will take the necessary steps to enhance its appraisal mechanism for DC projects to ensure genuine consultation with ACT/EMP and ACTRAV, and remind field offices of the relevant roles and responsibilities as well as the procedures to follow.

2.1.2 Strategy framework

34. The ILO Accountability Framework, IGDS 137, sets as one of its principles *clarity of responsibility.* It was established that organizational policies and behavioral guidelines define the level and types of responsibilities attached to all positions.

a. ACTRAV

35. In line with principle of accountability and pursuant to the TOR of the two Bureaux in IGDS 536, it is laudable that the ACTRAV had established its Strategy Framework which is a vital document to narrate its functions as well as its roles and responsibilities. With the established ACTRAV Strategy Framework, we identified that ACTRAV operational processes are in general appropriate, adequate, and clearly expressed. More specifically with its financial management processes which are conducted through the IRIS system therefore adhering to the pertinent ILO financial regulations and rules. However, we identified opportunities for improvement in its Strategy Framework, by including specific procedures and processes it undertakes regarding programme management with focus on coordination and consultation processes; and human resource management, specifically on recruitment and selection, among others, to enhance collaboration and integration of its strategy with

that of the other technical department/units/offices of ILO, in the achievement of the objectives of the Organization as a whole.

36. For programme management, it was gathered that the technical departments of ILO had a tendency of precluding the Bureau or being involved only at the later stages of project implementation or when difficulties arise during project implementation. Thus, we suggest that the specific procedure regarding programme management specifically on coordination and consultation be specified in its strategy framework that provides guidance to the Bureau and to the other technical departments, as well. For human resource, we noted that ACTRAV has the prerogative of hiring its staff in consonance with IGDS No. 536 to ensure that the concerns of the workers' organization were duly considered in the recruitment of its staff. Specifically, it was informed that the Staff Union is not being consulted during staff recruitment of ACTRAV. Rather, the short list is being selected through the internal screening and the said list will be submitted to the HRD for appointment procedures. We noted that ACTRAV's recruitment procedure is not enshrined in its Strategy Framework and proposed that this should be incorporated for transparency.

37. ACTRAV stressed the need for more cooperation and coordination for activities involving the workers' organization with other departments of ILO. It is reiterated that the non-inclusion of ACTRAV's processes and procedure in its Strategic Framework would tend to reflect a perception that it is a distinct and separate office of the ILO. Clear procedures and guidelines enhance transparency and accountability with all the staff involved. With clarity of procedures and guidelines, it will indicate what is expected from all concerned and necessarily bring harmony among individuals and units working together toward the achievement of organizational goals.

38. **We recommended that ILO, through the ACTRAV, should enhance the Strategy Framework of ACTRAV to include specific procedures and processes regarding the management of programme implementation and human resources, to strengthen collaboration and integration of its strategy with that of the other technical department/units/offices of ILO.**

39. **ILO Response:** The recommendation is accepted. As a Strategic Framework already exists for ACTRAV, it will be reviewed to include procedure on hiring its staff to include the information as in the IGDS, as well as coordination and consultation with other departments.

b. ACT/EMP

40. Various guidance documents and operational guidelines for staff existed in ACT/EMP. However, these were not available in one comprehensive document to easily facilitate the delivery of the Bureau's work. It was explained that its operations are diverse and dynamic in many ways and agreed that it will be helpful for many reasons to have one document which sets out all the areas where they currently have processes, instead of separate documents. Nevertheless, ACT/EMP agreed that an overarching framework that captures its internal processes will facilitate efficiency and effectiveness of its operation in the delivery of its services to the employers' constituents.

41. The overarching document should be comprehensive that provides a clearer and more concrete work path in a systematic manner is desirable. A framework that defines operational processes, staff accountability and covers the steps in the programming process (planning, implementation, monitoring, and reporting) which include the various elements such as the role of ACT/EMP in the implementation of the P&B, application of RBM framework and proper linkages of outcomes, outputs, indicators and targets, resource mobilization pathways, and programme implementation reporting and OBWs exercises. These elements are crucial to manage the activities to be carried out in the biennium and constitute the tools to facilitate the related works, all in compliance with the strategic policies such as the Centenary Declaration, Strategic Plan, and the P&B.

42. Clearly defined, documented, and managed processes form the foundation on how the Bureau effectively delivers its programmes and projects to their constituents and exact accountability to its staff is essential. It bears stressing that to ensure a productive and harmonious relationship between and among the tripartite, the needs and challenges of the constituents in the dynamic business environment should be responded within a structured system depicted in a framework. Hence, the ACT/EMP can greatly benefit from establishing a governance framework that efficiently and effectively ensure that policies, strategies, processes, and procedures supporting the structure in the delivery of outcomes are in place and functioning as intended.

43. **We recommended that ILO, through the ACT/EMP, should develop a structured governance framework that details essential information on ACT/EMP-specific strategies/policies; structure, role, and functions, including its engagement with EBMOs; and resource mobilization pathways with the purpose of developing the Bureau's overarching guidance document.**

44. **ILO Response:** The recommendation is accepted. ACT/EMP agrees with the added value of developing an overarching framework that captures its internal processes and ways of working in one document to facilitate the efficient and effective delivery of support to employers' constituents. It will consolidate its operational model and practices into an easy-to-access guidance document that can be continuously updated and fine-tuned on new and emerging good practices.

2.2 Delivery, monitoring and reporting of outcomes

45. In IGDS 112, it was indicated that RBM is the management approach that directs organizational processes, resources, products and services towards the achievement of measurable outcomes. It was mandated that RBM applies to all stages of the ILO's programming cycle, including programme planning, implementation, reporting and evaluation. Thus, we evaluated whether the targeted outcomes and budgetary performance for Policy Outcome 1, where the two Bureaux are directly involved, are achieved within the targeted period and aligned with the P&B and work plans.

46. We assessed the processes of the Bureaux in working towards the achievement of their respective outputs and outcomes. It was noted that the processes were undertaken in a manner that will sufficiently achieve their required targets. The experience of both Bureaux and their established

communication link with their respective groups (workers' and employers'), have given them sufficient leverage to address the concerns of these two vital constituents of ILO. We further assessed the adequacy and efficiency of monitoring and reporting controls covering the programme and project implementation as well as its delivery. Although it was noted that the governance mechanisms were in place, as shown in the OBW and the Departmental Workplanning, the monitoring and reporting can be further reinforced, such as, strengthening coordination with field specialist to provide accurate progress data, enhancing capacity building of staff on programming, and fully implementing individual workplanning for all their respective staff.

a. *ACTRAV*

47. ACTRAV is reporting on Output 1.2, with indicators specifically pertaining to workers' organizations. It was noted from the OBW Dashboard that for the period as of September 2022, there were 29 CPOs for which there is an absence of linkage to a particular indicator. It was explained that some of those CPOs are not actually ACTRAV's targets, but such can be traced or reconciled during the OBW reviews. Nevertheless, it was acknowledged that there were some target CPOs that were not correctly linked to a particular indicator. It was further gathered that there may be instances where there would be an update on the target countries which necessitates close coordination between the field specialists and the desk officers in HQ.

48. Equally important is the aspect of workplanning. It was noted that the development of unit workplans regarding its technical clusters was linked directly in the OBW of ILO. It was likewise commendable that ACTRAV had established the system of collating the workplans of its staff through a database. However, the individual staff workplans, although mandated and maintained in a database, have not been completely complied and that few staff had adopted their individual work plans as a modality of performance reporting and monitoring. We were further informed that individual outputs are being measured based on their respective work months. Although such manner of measurement of outputs is beneficial, these individual workplans are output based which is more data-driven rather than results-oriented. The definitive mandate of RBM is a result based individual workplan that is linked to the OBW outcomes. It was explained by the Bureau that the importance of workplanning is being considered, though challenges still exist in the implementation of this aspect of programming. Nevertheless, to fully embrace the principles of RBM into ACTRAV processes, a clear linkage of individual outputs should be identified and associated with the P&B outcomes and outputs.

49. Furthermore, it was noted that there is a need to enhance the understanding and capacity of field staff with the programming cycle and reporting mechanisms. Though it was acknowledged that the focus of the field specialist is on the implementation of programme and projects; however, reporting and monitoring is also an essential element of programme implementation. This will facilitate evidence-based contribution of the Bureau towards the achievement of the established Outcomes of the ILO. The enhancement of the understanding and skills on programming of the field specialist can be conducted through the HRD and Strategic Programming and Management Department (PROGRAM) initiatives, which are the dedicated units for the conduct of capacity building activities, and technically capable to provide such training. The Bureau informed that the conduct of capacity building activities can be conducted in consonance with the strategic direction of the HRD.

50. **We recommended that ILO, through ACTRAV, should fully embed the principles of RBM and enhance reporting and monitoring of results, by:**

a. **enhancing coordination in the field offices for the necessary changes in CPO status during OBW reviews, thus, ensure the integrity of information being reported as a result of its programme delivery;**

b. **establishing a more comprehensive capacity building activities on programming, in accordance with the strategic direction of the HRD, hence, enhance the capacity of its staff on the important principles of results reporting; and**

c. **implementing individual work planning activities among ACTRAV Staff.**

51. **ILO Response:** The recommendation is accepted. With regard to enhancing coordination during the OBW review process, ACTRAV plans to undertake consultations with programme officers in the field ahead of the OBW reviews to facilitate updating of the reported information. On capacity building and workplanning, ACTRAV will explore with HRD, investments on the development of materials for staff development and the possibility of utilizing its database to provide linkage to individual staff activities.

b. ACT/EMP

52. ACT/EMP oversees the implementation, planning and reporting of Output 1.1, specifically working on performance indicators relating to employers. In the OBW dashboard, it was observed that there are 25 CPOs linked to output 1.1 but not linked to indicators 1.1.1 or 1.1.2; 81 CPOs without status, and 96 deliverables of CPO with delivery date on or before October 2022 which were not yet started. On the other hand, the status of three GP was not up to date. Thus, we noted the need to enhance coordination, especially between the field specialists and the National Programme Officers (NPOs) about updating the CPO data in SM/IP. Our evaluation revealed that there were instances where there is a need to update the targets as to the linkages of these CPOs with the indicators and GPs particularly during OBW reviews. These CPOs are programmed and updated by NPOs in the COs, and the direct responsibility of the ACT/EMP specialists in the field is to verify and validate data that should be reported in SM/IR and during the OBW exercise.

53. ACT/EMP commented that the condition may be caused by actions taken in the field offices without consultation with the Bureau. Nevertheless, it was explained that this can be clarified during OBW exercise thus, the review of the status of CPOs together with their specialists, and the GPs together with their policy focal points. Tapping into the OBW Reviews enables ACT/EMP specialists to request reasonably and periodically to NPOs, who do not report to ACT/EMP. Hence it cannot ensure their compliance to update the CPOs and provides the vehicle for coordination and consultation.

54. Progress related to Output 1.1 is tracked through the OBW which enunciated that Field Offices and HQ departments, in this case, the ACT/EMP being in charged with the delivery of Output 1.1, have the responsibility to ensure that information in the SM/IP are regularly updated. The communication between and across field offices and departments at HQ throughout the OBW review process is essential

to ensure continuous monitoring of progress of the respective programme and projects implementation and delivery.

55. **We recommended that ILO, through ACT/EMP, should enhance the accountability process of regularly uploading and updating CPO and GP information, including its deliverables, and the linking of CPOs with the output indicators in the SM/IP by: (a) ensuring compliance by ACT/EMP Specialist on GPs; (b) strengthened coordination and consultation between ACT/EMP Specialist and NPOs on CPOs; and (c) robust and regular monitoring by the ACT/EMP Management and Output 1.1 focal point.**

56. **ILO Response:** The recommendation is accepted. ACT/EMP will use the institutionalized processes of OBWs to review the status of CPO level information, including its linkage with indicators, and communicate noted discrepancies to relevant NPOs.

2.3 Resources

2.3.1 Organizational structure

57. As indicated in IGDS 195, *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 officials at all levels for their decisions, actions, and omissions.* ACTRAV and ACT/EMP maintained their direct reporting relationship with the DG in the current organizational chart of the ILO, as contained in IGDS 615. This is because of the unique feature of promoting the interests of workers' and employers' organization as constituents of the ILO in advancing social dialogue and tripartism. In relation, it was gathered that the organizational structures of the Bureaux are rather flat, an organizational structure with few or no levels of middle management between staff and executives which simply indicate that all the staff of each Bureau are directly reporting to the Director.

a. ACTRAV

58. ACTRAV carries out its roles and functions within ILO through the adoption of a clustering system. It has three technical clusters, with sub-clusters where staff from HQ, field office and ITC-ILO are involved. In addition to the three Clusters, there are also five institutional teams. The functions of the clusters are enumerated in the ACTRAV Programming Handbook and that the three clusters have their own respective TORs and work plans. We noted, however, that the Bureau does not have a detailed organizational structure to establish the reporting lines, arrangement of positions and function, and mechanisms for coordination with the ILO technical departments and other ILO offices.

59. ACTRAV emphasized that hierarchical structure can be counter-productive and that it will divide rather than unify. It was further related that the cluster coordinators and the desk officers for the five

regions serve as the reporting links to the Director. This is, nevertheless, vague if not obscure in the Strategy Framework of ACTRAV and in any of its governance documents. Thus, we opined that defining staff relationships, reporting lines, functions and roles is rather a beneficial exercise considering the circumstances. Aside from upholding the principles of accountability, it will facilitate implementation of planned activities towards the achievement of objectives of the Bureau.

60. One of the apparent challenges of a flat organizational structure is on performance appraisals. The Director of ACTRAV is responsible for the performance appraisal of all the staff in their respective Bureau. With the Director, assisted only by the Deputy Director, handling much of the work, it is construed that considerable man hours are spent in conducting performance appraisals. It is reiterated that ACTRAV has 51 personnel comprising the global teams and specialists in the field. It should likewise be emphasized that performance appraisal cycle is done in three stages (Beginning of Cycle (BoC), Midterm, and End of Cycle (EoC) reviews), requiring considerable time and administrative effort on the part of the Bureau Director with consideration on the importance of human resources management inasmuch as people are the ILO's most valuable asset and the key to the successful delivery of its objectives to the constituents.

b. ACT/EMP

61. On the other hand**,** the TOR on the organizational structure of ACT/EMP was encapsulated in an internal minute dated 23 July 2015 of the Director which was entitled "Policy and Other Responsibilities in ACT/EMP". Examination of the minutes showed that the function of the policy teams was not clearly defined, and the roles of the coordinator and members of each of the policy teams were not clearly delineated. Moreover, the minute and its attachment only provided the names of ACT/EMP personnel designated for "Internal ACT/EMP Governance and Regional Responsibilities" without providing the details of their roles and responsibilities. It was acknowledged, however, that ACT/EMP believes in the benefits of providing for a clearer authority and responsibility of its staff.

62. The current condition in the Bureau has the same effect on performance appraisal. ACT/EMP has 16 staffs stationed at HQ and 16 field specialists, hence, responsible for all their performance appraisals. When conducting performance appraisals for field specialists, the Director seeks the views of ACT/EMP's regional desk officers. The fact that appraisal shall be carried out by the official's responsible chief who may obtain the views of the official's supervisor or where appropriate, any other official under whose supervision the official has worked during the period under review (Article 6.7 of the ILO Staff Regulations), revealed that ACT/EMP's flat structure would benefit from a more detailed documented coordination process among staff. Setting the roles and responsibilities by developing a set of TORs for the established teams, specifying how the teams will coordinate with other policy departments and internally within the Bureaux, as suggested by ACT/EMP, is a way forward.

63. The importance of a sound and well-defined organizational structure can hardly be over emphasized. Organizing warm bodies is one of the basic functions of management. Its importance lies in the systematically evolved pattern of relationships designed to set in motion the processes of managerial functions, such as performance management, inter-department and external communications, as well as supervision arrangement, among others. Organizing is not merely a chart

or a lifeless structure. It comprises people and it is the Bureaux through which management performs the important functions of direction, coordination, and control. It is further emphasized that an organizational structure is an accountability mechanism that is primordial to establish functions, responsibilities, and authorities. Clarity of functions and responsibilities of each of the key players in the ACTRAV and ACT/EMP operations is vital in the achievement of organizational goals and objectives.

64. **We recommended that ILO should develop a more detailed and defined organizational structure for ACTRAV and ACT/EMP to support enhanced coordination of activities within and outside the Bureaux as well as establish specific function, roles and responsibilities of staff, and elaborate interrelationships of teams and field officers to facilitate efficiency in their respective processes and to better uphold the principles embedded in the ILO accountability framework.**

65. **ILO Response:** The recommendation is accepted. For ACTRAV, its roles and functions within ILO are organized through the adoption of a clustering system including three technical clusters and five institutional teams. The cluster coordinators and the desk officers for the five regions serve as reporting links to the Director and provide collective feedback into the performance appraisals of ACTRAV staff in the field. A “flat” structure continues to work for the Bureau considering the small number of staffs. Nevertheless, it committed to revise its Programming Handbook to add more clarity on the functions and responsibilities of each key players in ACTRAV.

66. ACT/EMP will set out the roles and responsibilities by developing a set of TORs for the established policy teams, specifying how the teams will coordinate with other policy departments and internally within ACT/EMP. The updating and defining of ACT/EMP’s internal structure will need to be sequenced as the wider Office restructuring is finalized and will be reflected in its operational framework.

2.3.2 Staff development

67. Staff development is even more critical as the organizations continue to conduct their operations in the post-pandemic world and confronting the current business environment. Thus, there is a need to assist the staff in the new normal and rebuild their capacity to make them effective and sustainable in the performance of their functions. In fact, training for ILO staff and constituents is implemented to strengthen and sustain the application of RBM in ILO work and across the Organization as clearly stated in IGDS 112.

68. It was acknowledged that ACTRAV and ACT/EMP capacity building activity mainly include a retreat conducted once every two years and training activities for both Bureaux appears to be ad hoc. This was corroborated with the low financial delivery on staff development in the ACTRAV budget for the 2022–23 biennium. In relation, ACT/EMP agreed and elaborated that designing a Staff Learning and Development Plan could support the continued learning need by all staff and thus, respond to the changing constituents’ needs. With the leniency on health protocols brought about by the pandemic, it is an opportune time to include staff capacity building in the development of post-pandemic strategies and plan for both Bureaux. We were informed that, as a strategic direction of the HRD, it will be

conducting an overall skills mapping exercise, which is suitable and a timely facility to seize in advancing the development of staff development strategy. Further, the inclusion of performance indicator on staff training in the staff performance evaluation can also be a viable way to inculcate the importance of capacity development among the staff.

69. Management commented that present concerns regarding staff development requirements can be addressed by the planned conduct of the overall skills mapping exercise by the HRD. Nevertheless, we presented that the stated condition does not require for an independent exercise apart from that of the HRD but should be undertaken in consonance with the related HRD initiative. This is to align every staff development strategy of individual offices with that of the organization wide direction and strategy.

70. The lack of staff training may result with staff being unable to deal with challenges that the future of work may hold, negatively affecting the fulfilment of the roles and functions of the Bureaux. The staff learning development plan is a vital tool that increases transparency and shortened time to determine staff development priorities especially in the identification of: (a) development needs and the emerging skills essential to the Bureaux' ever evolving business environment; and b) critical talent capabilities and learning needs essential to the achievement of organization objectives.

71. **We recommended that ILO should enhance its staff development activities by establishing a staff learning and development plan or strategy for ACTRAV and ACT/EMP, in consonance with the overall skills mapping exercise of HRD, and provide as one of the performance indicators of each staff the requirement of capacity building in the staff performance evaluation.**

72. **ILO Response:** The recommendation is accepted. Both Bureaux are committed to engaging positively with the Office-wide skills mapping exercise led by the Human Resources Development Department (HRD), as part of the ILO's Human Resources Strategy 2022-25. Based on the specific information and outcome from the Office-wide skills mapping, the two Bureaux will separately develop plans for their staff, addressing their development needs and skills to adapt to the changing world of work and the evolving constituents' needs.

2.3.3 Resource mobilization

73. As stated in the IGDS 536, under the area of resource mobilization, the two Bureaux role and function is to work with departments and field offices to develop strategies and secure resources on the activities for employers' and workers' organizations as appropriate, under all programme outcomes from extra-budgetary sources, Regular Budget Supplementary Account (RBSA), Regular Budget for Technical Cooperation (RBTC) and locally available funds. The importance of resource mobilization is well emphasized in the same IGDS, which provides that regular and extra-budgetary resources should serve the same ILO objectives. Budgetary resources are vital and useful to the extent that they reinforce the work of the ILO and should always be considered in the context of its larger mission through tripartism.

a. ACTRAV

74. We acknowledge the efforts of ACTRAV in the mobilization of DC projects by engaging in the project design of some proposals. However, as noted, ACTRAV's extra-budgetary resource for 2022 has remained on the low side. According to the PARDEV, it has been a long time since the ACTRAV was the originator of any proposals for new projects. This was confirmed by ACTRAV, stating that the Bureau does not have any Extra-budgetary Development (XBDC) Projects since information regarding donors, partnerships and DC opportunities have not been adequately shared nor does it participate in processes linked to the management of extra-budgetary resources. It was further gathered that, ACTRAV is being involved mainly at the very end of the process, at which point it has minimal chance for any participation in the proposal or agreement with the donors. In other words, there is a need for a systematic mechanism in place for coordination between PARDEV and ACTRAV.

75. ACTRAV acknowledges the need for increased resource mobilization and is working through the Multilateralism and Partnership cluster to ensure that ACTRAV HQ and field staff are better equipped to build and manage the DC portfolio as part of resource mobilization. It was related that several challenges were encountered in mobilizing extrabudgetary resources, but, stated that it will continue to engage in office-wide processes and conversations to ensure that the direction of development cooperation builds on the ILO's comparative advantage of tripartism and social dialogue with in the vital normative framework.

b. ACT/EMP

76. We also gathered the absence of project funded by RBSA for ACT/EMP, despite several submissions of proposals, as concluded from the first and second rounds of programming RBSA in 2020-21. It was further gathered that there is no programme or project of ACT/EMP that is funded through XBDC except the Global Business Network on Forced Labour (GBNFL) which is not similar to traditional donor funding. The GBNFL is an inter-departmental initiative led by ACT/EMP and technically supported by Fundamental Principles and Rights at Work Branch (FUNDAMENTALS).

77. Considering the absence of XBDC and RBSA resources, ACT/EMP emphasized that its strategy to address systemic issues to maximize the outreach and benefits of the entire resource mobilization portfolio to the employer constituency is to require an Office-wide and coordinated approach, especially as the donors' priorities shift towards integrated programmes and stand-alone employer programmes no longer attract donor interest and support.

78. The Bureaux agreed that resource mobilization for workers' and employers' organizations requires an office wide effort. Hence, cooperation and coordination with other departments of the ILO would help address outstanding concerns on resource mobilization. PARDEV, for its part, believes that the involvement of all relevant stakeholders is required to establish rapport and accountability over resource mobilization. Both Bureaux would benefit from more concrete support and engagement by PARDEV and PROGRAM on resource mobilization.

79. The PARDEV, as the department responsible for resource mobilization, stressed that resource mobilization by ACTRAV and ACT/EMP should not be substantially different from resource mobilization by policy departments and field offices, as it should be a coordinated activity across the Office. Thus, there is a need to establish a well-coordinated Office-wide resource mobilization plan, translated into a written policy or set of guidelines, which shall establish clear engagement mechanisms between the PARDEV, two Bureaux, other technical units, and field offices of ILO, thus outline resource mobilization plans that more centrally place capacity development of employers' and workers' organizations. This will ensure an office-wide processes and conversations to ensure that the direction of all resource mobilization efforts builds on the ILO's comparative advantage of tripartism and social dialogue.

80. **We recommended that ILO, through PARDEV, should establish a well-coordinated and systematic resource mobilization strategy with the clear definition of the roles of PARDEV, the Bureaux and other technical units, and field offices to strengthen the support for the employers and workers organizations and opportunity for a successful collaboration with donors and funding partners.**

81. **ILO Response:** The recommendation is accepted. PARDEV will engage both Bureaux and other relevant departments/offices and lead productive consultations regarding resource mobilization activities, addressing any outstanding concerns in relation to specific procedures for proposal development, effectiveness of the appraisal mechanism, project implementation and monitoring and evaluation issues.

2.4 Compliance with regulations, rules, and legislative authority

82. The ILO Internal Control Framework (ICF) provides for the interdependence of internal control and risk management. It states that control activities are those established by policies and procedures to mitigate risks to the achievement of objective. Hence, the review conducted on the compliance of the two Bureaux with the established regulations, rules, and legislative authority was anchored on the said principle of internal control. It was noted that the operation of ACTRAV and ACT/EMP was generally assumed in accordance with the established regulations and rules, except for the gaps we noted in the areas of risk management and performance appraisal.

a. ACTRAV

83. For risk management, it was noted that that the ACTRAV should work more towards compliance with ILO Risk Management Manual, specifically regarding the evaluation of the risks, cause, and risk response in its risk register. ACTRAV recognizes the need for more information and guidance in defining its risks and the related elements, in pursuance to ILO Risk Management Framework.

84. Risk management allows organizations to facilitate decision making as to the controls that should be established in order to properly manage those events or circumstances that would probably hinder the attainment of the organization's objectives. Thus, proper risk identification and assessment

is a vital exercise to be able to achieve the objectives of risk management and eventually the objective of the whole Organization.

85. **We recommended that ILO, through the ACTRAV, should revisit and update ACTRAV risk register to incorporate the clearly defined elements for improved decision-making processes and to ensure compliance with the ILO Risk Management Framework.**

86. **ILO Response:** The recommendation is accepted. The ACTRAV committed to seek more information and assistance from the ILO Senior Risk Officer in order to clarity the process and requirements and to ensure its compliance.

b. ACT/EMP

87. With regards to performance appraisal, we noted some overdue appraisals of ACT/EMP staff, which run contrary with the ILO policy on performance management. This can be attributed to the fact that all staff are under the direct supervision of the Director. Considering such arrangement and with the flat structure, performance appraisals of all staff of ACT/EMP are being completed by the Director, in tandem with the Deputy Director. ACT/EMP recognizes bottlenecks in its performance evaluation exercise and ensured that performance conversations have consistently happened, and it was conducted fairly by recognizing the achievements and successes attained by staff members.

88. Performance management helps the Organization ensure that staff understand their roles, receive constructive feedback, and have the support they need to achieve their goals and career objectives. Consequently, human resource is an important element of organizational processes and their appropriate management, specifically those pertaining to management of their performances, affect how the organizational objectives are achieved.

89. **We recommended that ILO, through the ACT/EMP, should strengthen the rigorous and results-based practice of conducting performance evaluations in ACT/EMP and monitor the compliance rate of performance appraisals as publicized in ILO People, to properly manage staff performance activities.**

90. **ILO Response:** The recommendation is accepted. While the ACT/EMP management has consistently and comprehensively conducted performance conversations with staff and addressed performance gaps with the framework specified, it committed that further action will be taken in order to promptly accelerate the conduct of its performance evaluations.

3. Review of procurement management

91. Procurement is the complete action or process of acquiring goods or services using any of several authorized means and involves planning, definition of requirements, sourcing, solicitation of

offers, evaluation, approval/contract award and contract administration. The first step in the process is the procurement planning.

92. In 2017, the External Auditor recommended the development of procurement plan for ILO. The recommendation was implemented through the Organization Procurement Plan (OPP). The OPP is the electronic procurement planning application of the ILO that facilitates the preparation of the annual procurement plan. The implementation of the audit recommendation is laudable and revealed that digital procurement applications and solutions not only create an opportunity to improve efficiency; it also paves the way for Procurement Bureau (PROCUREMENT) to play a strategic role in accelerating innovation.

93. Currently, the momentum to accelerate procurement innovation was sustained with the introduction of Jaggaer, the ILO *e*Sourcing platform in finding, evaluating, selecting, and collaborating with current and potential suppliers. PROCUREMENT plays a key role in shaping the ILO's digital strategy and harness the economic and strategic benefits in digitizing procurement.

94. Improving efficiency and effectiveness over procurement is crucial while adopting procurement electronic application and solutions that geared towards the attainment of the procurement principles. For the financial year 2021, the ILO had spent a total of USD409 million for its procurement, USD17 million representing procurement of goods and USD392 million represents procurement of services. While preliminary data for 2022, the ILO had spent a total of USD267 million for its procurement, USD11 million representing procurement of goods and USD257 million represents procurement of services. With this amount of resources, it is imperative that necessary control mechanism should be in place and operating as intended along the procurement processes. It is also necessary that irregularities are prevented with appropriate and functioning internal controls and through compliance with the established regulations, rules, procedures, and guidelines.

95. Since the previous review, we noted significant progress towards establishing innovations to make the procurement management more robust and responsive to the procurement needs of the ILO. One notable progress is the establishment of the OPP application. The OPP allows for online submission and approval of procurement plans for procurement activities with estimated value of USD50,000.00 and above. The functionality of the platform also includes a dashboard showing the planned procurement for the year, presented by region and categorized per United Nations Standard Products and Services Code (UNSPSC).

96. Further, the roll out of the eSourcing platform, based on the Jaggaer technology, which was fully integrated in the UN Global Marketplace (UNGM). The new platform went live on 1 January 2022 and was piggybacked with another UN agency. With the decommissioning of In-tend (the former ILO *e*Sourcing platform), PROCUREMENT has initiated to implement a phased roll-out of the enhanced version of the Jaggaer to provide a more responsive, with a clear and real-time view of the procurement processes.

97. The objective of the review is to obtain reasonable assurance that ILO procurement activities and policies are delivered in a professional, accurate, fair, timely and transparent and accountable manner with consideration of the adopted procurement system placed and the corresponding value these add to the organization in the achievement of its objectives.

98. Established and highlighted in the UN Procurement Practitioner's Handbook (UNPPH) is the importance of electronic procurement in the delivery of desired outcomes that enhances fairness,

transparency and traceability of the procurement data; thus, discouraging proscribed practices, among others. As indicated in the report on the procurement practices within the UN system (JIU/REP/2004/9), the Joint Inspection Unit (JIU) Inspectors emphasized the significance of electronic procurement and was seen by many UN organizations as offering potential benefits that include enhanced efficiency and effectiveness resulting from a significant reduction of transaction costs and process time cycles, greater transparency and integrity in procurement proceedings, scaling performance from tactical to strategic focus, fewer human errors, improved job satisfaction and staff motivation, among others.

99. Driving the corporate procurement towards digitization is a commendable exercise of the ILO and a laudable undertaking in the fulfilment of its mandate to be a good steward of public funds as entrusted. We assessed the current state of the procurement process and uptake of the procurement management as we indicate some opportunities for improvement and suggested courses of action, which could be considered as the procurement management of ILO accelerate to digitization, detailed as follows:

3.1 Procurement system innovation

100. While we noted that OPP is a suitable application for procurement planning and the Jaggaer solution is a convenient platform to manage the procurement processes of ILO, from solicitation to contract award, we nevertheless highlight certain area where both the OPP and Jaggaer could be optimized, specifically:

3.1.1 Electronic procurement system integration

101. The UNPPH highlighted the advantages of an *e*Tendering or *e*Sourcing tool especially when the tool is integrated with the organization’s electronic procurement system or has been made part of its ERP system. These benefits also aligned with the intent of the ILO in its efforts to fully digitize its procurement process. Our review of the ILO *e*Procurement system revealed that its procurement process ranging from procurement planning through contract management and the eventual payment of invoice were digitized using three independent application systems namely: (a) the OPP application; (b) the *e*Sourcing tool based on Jaggaer technology; and (c) with the backend ERP system, the IRIS. We noted, however, that there was no integration of the information contained in the OPP and in the Jaggaer to the IRIS. PROCUREMENT commented that such integration is technically feasible under the current state of the systems, though it will necessitate investment of resources.

102. The procurement plan processed in OPP has a direct linkage with the budgeting modalities provided in IRIS. Similarly, in Jaggaer important documents are stored and generated, such as: information regarding the successful vendor or supplier, the tender documents, the deliberation of the review committee, and the result of the evaluations, among others. These documents are important consideration in the processing of financial transactions in IRIS. Moreover, the manual input was done in the IRIS for the required information necessary in the creation of purchase requests and orders. While the uploading of the supporting documents is made separately in IRIS and in Jaggaer. We opine that the best way to realize the full potential of digitized procurement is through a user-oriented, end-to-end transformation of the entire Procure-to-Pay (P2P) process and translate the same into single focus for procurement. Clearly, linkage through interface among and between the three application systems could lessen man-hours and reduce administrative costs and human error. A procurement digitization that considers the integration of stand-alone applications into one cohesive procurement information system could achieve the intent of the organization for a more efficient and effective procurement process.

103. **We recommended that ILO, as a way forward, should develop a concrete plan and strategy to fully integrate the electronic applications and solutions involved in its procurement management and work towards systems interface, to facilitate efficient procurement process and data management, and improve related strategic and tactical decisions.**

104. **ILO Response:** The recommendation is accepted. The Office agrees that further system integration between the procurement planning tool, the *e*Sourcing tool and IRIS could create efficiency and enhance data coherence. Such an integration would require significant investment of both financial and human resources, which must be considered in the broader framework of the Office's Information Technology Strategy 2022-25. The Office will conduct a feasibility study and cost benefit exercise on the implementation of this recommendation before developing a concrete plan and strategy and update its response in future periods.

3.1.2 Jaggaer functionality improvements

105. Another aspect that we noted, as the organizational roll out of the Jaggaer progresses in ILO, is the PROCUREMENT's plan to include among its features additional functionality that will capture the whole procurement process. Given the current benefits and viewed within the scope of creating change and accelerate innovation in the *e*Procurement process, our assessment of the current deployment of the Jaggaer *e*Procurement solution revealed that it should facilitate waiver requests, as well as vendor and contract management. The waiver request feature allows management of the direct selection modalities of procurement, which is an exceptional modality adopted by ILO under certain conditions. While the vendor and contract management functionality enable the monitoring of contractual obligation of vendors, as well as assessment of their performance. These features facilitate completion of the Jaggaer and the digitization of the procurement cycle.

106. Utilization of electronic procurement is a main instrument for the efficient management of resources entrusted to the organization by the Member States and other donors. Just like any other IT-enabled processes, the adoption and the eventual deployment of an *e*Procurement solution involves significant changes at both the organizational and process levels. PROCUREMENT further stressed that, although technically feasible, it will entail additional resources. Consequently, this will amplify accountability needs, broaden supply networks, and challenges well-established manual practices that implies modifications in practices and culture. Nevertheless, these improvements should not prevent the organization from achieving its planned procurement outcomes. Instead, it should recognize these challenges and changes as opportunities to move digital innovations further ahead. As a transformational initiative, digitizing procurement processes should be pushed forward in the Organization's agenda. As it currently stands, Jaggaer's full potential is not yet achieved, and its benefits must be recognized towards its complete deployment.

107. **We recommended that ILO, moving forward, should pursue its plan on the inclusion of procurement functionalities for waiver requests, and vendor and contract management into the Jaggaer, to harness its full potential and to ultimately improve procurement transparency, accountability, and overall procurement governance.**

108. **ILO Response:** The recommendation is accepted. The Office agrees that a new functionality to process waiver requests, which is part of the procurement process, should be included in Jaggaer and is already working on this. The Office is extending the use of the *e*Sourcing tool across all offices worldwide, which should be completed by the end of this biennium. After a period of use of the system

an assessment will be undertaken, with user feed-back, to look at the potential for expansion of the system and its associated costs.

3.1.3 RBM linkage to procurement

109. IGDS 112 dated 25 August 2009 prescribes the adoption of the RBM in the ILO. RBM is an approach to management that directs organizational processes, resources, products and services towards the achievement of measurable outcomes. It was further indicated under the same IGDS that RBM applies to all stages of the ILO's programming cycle, including programme planning, implementation, reporting and evaluation.

110. It is reiterated that procurement is more than a back office administrative function, rather, a core part of organizational strategy for delivering better performance and attainment of objectives. While it is laudable that the ILO, through the PROCUREMENT, had robust initiatives on its procurement planning exercise, we deemed it appropriate to advance the initiatives with a visible linkage between the procurement activities with the desired outcomes of the organization as a whole.

111. PROCUREMENT adopts appropriate procurement strategies and contract types that are aligned with the outcomes. Allowing the linkage of procurement activities to outcomes serve in measuring the contribution and impact of the procurement activities to the achievement of the outcomes and eventually to the overall goals and objectives of the ILO. One of the viable ways to provide such clear linkage is through the procurement planning exercise carried out through the OPP. This can be done by identifying the particular outcome that the planned procurement is contributing to; hence, tracking procurement in a meaningful results-based manner to outcomes. Management added that technical capabilities of the OPP can accommodate updates which can include the advancement of the RBM initiatives in the achievement of outcomes, through procurement planning.

112. **We recommended that ILO, moving forward, should strengthen the principles of RBM in its procurement processes by establishing a direct linkage of its procurement activities to specific outcomes in the P&B, through the procurement planning exercise.**

113. **ILO Response:** The recommendation is accepted. The Office will embark on the strengthening of RBM principles through the procurement planning exercise and require that all planned procurement activities are linked to one or more policy outcomes in the P&B.

3.2 Procurement process improvement opportunities

114. In the review, we pushed forward other improvement opportunities to advance the principles of accountability and internal control over the procurement processes of ILO, detailed as follows:

3.2.1 Procurement monitoring and reporting function

115. The procurement management system in ILO is being administered primarily by the PROCUREMENT which under IGDS 239, provides that the Bureau is functionally responsible for all procurement of goods and services at HQ and in the field offices, and advises on, drafts and/or reviews and approves contract documents arising from purchasing activities.

116. It was noted that procurement activities with amounts below USD50,000.00 were fully delegated to ILO units and field offices, with the PROCUREMENT's support and guidance. Moreover, as disclosed

by Management and depicted from the PROCUREMENT organigram, the CO-Addis Ababa had a dedicated and technically supervised procurement officer because of the voluminous procurement activities with major DC projects in that ILO jurisdiction. However, it was noted from the ILO's procurement profile, that procurement activities in other regions are also considered material in terms of amount, necessitating a more robust control, beyond the HQ Procurement Bureau's ad hoc review, focusing on challenges and bottlenecks regarding bids and tenders.

117. The assignment of dedicated procurement officers in the field office is intended to monitor and report; thus, ensure that: (a) due diligence takes place before key decisions are made; (b) policies and strategies are being implemented as intended; (c) key risks are identified, monitored, and mitigated; (d) procurement processes and systems are working as intended; and (e) expected results are being achieved. PROCUREMENT also believes that having a dedicated procurement officer, technically reporting to the Bureau, is an ideal situation but certain constraints should be managed according to the current available resources.

118. It is highlighted that information collected through monitoring is useful for purposes of developing policy, determining value-for-money, and drawing conclusions regarding compliance with fundamental principles of procurement and fulfilment of pre-defined objectives and targets. The results of monitoring provide a basis for the preparation of regular reports on the functioning of the procurement system and for the elaboration of recommendations and proposals for the future development of the procurement function and system.

119. **We recommended that ILO should enhance the PROCUREMENT functional structure through the augmentation of staff in the review and monitoring function at strategic regional location over the procurement activities of other units and field offices, to better achieve efficiency and effectiveness on its procurement activities and to ensure that the principles of accountability and internal control are observed on the procurement processes.**

120. **ILO Response:** The recommendation is noted and accepted in principle. The Office has already established several procurement officer positions at certain field locations using either regular budget or DC resources. In addition, the planned rollout of Jaggaer to all regions as a global *e*Sourcing platform will enhance transparency, accountability and internal control over the procurement processes throughout the ILO and allow PROCUREMENT and the Regional Offices to exercise their oversight and monitoring functions in a systematic manner. Additional dedicated staffing on procurement activities in the field offices will be encouraged through reprofiling of positions and workforce planning and, in the case of DC projects, subject to the funding commitment of donors.

3.2.2 Planning for Procurement below the T2 Threshold

121. ILO recognizes, in its Procurement Manual, that *while procurement is a support function for the Organization, it is at the same time a core function and critical to enhancing ILO programme and project delivery.* ILO also acknowledges that *developing strategic approach to procurement through appropriate and timely procurement planning is a key element for the successful acquisition of goods and services.* We nevertheless noted that procurement planning in ILO is focused more on high value procurement or those procurements costing above USD50,000.00 (T2 threshold), which were captured in the OPP. This may be the inevitable result of delegation of authority and prioritizing procurement efforts to high-value and high-risk procurements.

122. The preparation of procurement plan, at all levels, would not only be beneficial in the monitoring and evaluation of procurement activities in the ILO but will also facilitate the organizational roll out of the Jaggaer. Though we recognized the financial constraint on capturing all procurement plans in the OPP, we are nevertheless mindful that preparing even an offline procurement plan for procurement below the USD50,000.00 threshold further facilitate future integration of the Jaggaer and the OPP.

123. The importance of procurement planning, and procurement plans can never be understated, regardless of the amount of procurement involved. By including procurement activities with estimated value, even below the T2 threshold in ILO's procurement planning exercise, ILO will be able to: (a) link procurement activities to outcomes of programmes and projects; and (b) assess sustainable procurement indicators, *inter alia*, local communities, micro, small and medium-sized enterprises (MSMEs) and supplier diversity. PROCUREMENT agreed that capturing all procurement plans is indeed beneficial but then again raised concerns on the needed resources the exercise entails.

124. Procurement planning at all levels regardless of amount would facilitate the assigned task of spend analysis which is a beneficial undertaking to achieve economy and efficiency in procurement as well as promote procurement sustainability. Analysis of historical spend is a vital procurement tool to help the ILO analyze and optimize spending. The benefits of spend analysis are cost reduction, identifying inefficiencies, and mitigating risks, among others. It also helps improve supplier relationships, facilitate adoption of tail spend management and ensuring that proper control mechanisms are in place to manage. Eventually, the information gathered from such spend analysis would guide the ILO in ensuring that the principle of accountability is visible along the procurement processes, moving forward.

125. **We recommended that ILO, moving forward, should emphasize and disseminate to the ILO HQ units and field offices the need for appropriate and timely planning of procurement activities with estimated value not exceeding USD50,000.00 and establish a mechanism to monitor the preparation and submission of such procurement plan to enhance accountability and internal control over the procurement processes.**

126. **ILO Response:** This recommendation is accepted. The Office agrees in the importance of planning across all operational areas, including procurement. Within the delegated limits, efficiency and agility are prime considerations for the Office to maintain its capability to adapt swiftly to changing environments and emerging risks. As such, the Office will encourage the use of the available online tools to register plans for procurement activities.

3.2.3 Refinement of spend analysis

127. ILO recognizes that *all procurement activities require procurement strategies.* One of the first step in developing strategy is to conduct procurement profiling and spend analysis. The UNPPH provides clear guidelines in preparing a spend analysis providing that *one should analyse whether the historical spend data is a good indicator of future spends.*

128. However, gleaned from *ILO Procurement for 2021,* the spend analysis document provided in our audit, it shows the procurement statistics as well as the category of the goods or services purchased, the corresponding amount for such category, and its percentage equivalent to the total amount of procurement for that particular year. In comparison with the UN procurement report, spend analysis included key trends in UN procurement – breaking down procurement by UN organization, category of goods and services procured, and supplier country. Notably, it includes KPIs and highlights the

contribution of UN procurement made to supporting economic activities in least-developed countries, which is essential to advancing sustainable development and equal opportunities in these countries. PROCUREMENT related that proper analysis of historical spend is a way forward for ILO, given enough technology and administrative support.

129. With spend analysis, procurement data can be sliced and diced based on several KPIs, or metrics, relevant to the procurement organization. KPIs are essential to measure the effectiveness and performance of procurement management. Proper analysis of historical spend is an essential activity for the development of procurement strategy and will be a basis in planning procurement, managing tail spend, advancing sustainable procurement, among others. This will also be the consequence for a renewed emphasis on procurement planning which will eventually be captured in the full integration of the procurement systems of ILO at all levels.

130. **We recommended that ILO should refine the development of spend analysis by including KPIs, among others, as preparatory to procurement planning, management of tail spend and attainment of sustainable procurement, thus achieve economy and efficiency in ILO procurement.**

131. **ILO Response:** The recommendation is accepted. The Office agrees that the analysis of historical data is an effective manner to measure successful procurement. As a first step, the Office will consider the development of relevant KPIs and identify the needs to refine the *e*Sourcing platform to capture the necessary data for future analysis, including on the specific aspects of sustainable procurement.

3.2.4 Procurement timelines

132. The importance of establishing timelines for each step of the procurement process is highlighted in the UNPPH. The UNPPH was issued to provide UN procurement practitioners with a common reference point for good procurement practices in the UN system. The Handbook elaborated that *it is good practice to have some kind of performance metrics/indicators, such as estimated timelines and related deliverables, in place for each step of the procurement process upon receipt and acknowledgement of the requisition.* The same Handbook also added that estimated timelines and related deliverables, as performance metrices/indicators, would enable *the requisitioner to know how long each step in the process should take, what will be required from whom and by when,* and *may help instil a stronger sense of ownership, accountability and predictability in the procurement officer, the requisitioner and other parties involved in the procurement process.*

133. In the review of the ILO procurement process, we noted that the average processing time varies considerably from one procurement to another. The timelines along the process showed significant variability which indicated the varied interpretation of process owners of the timelines on the procurement processes. The identified bottlenecks pertain to bid evaluation and procurement review. This further indicated that the current procurement policies of ILO are wanting of a definitive timeline for each step of the procurement process.

134. We acknowledge that there are numerous factors that affect the processing time of one procurement activity, including the level of complexity or technicality of the specifications involved, the number of participating suppliers, the method of solicitation and methodology of evaluation used, as well as the value of the procurement. We also recognize the effort of ILO to address the issue of lengthy processing times by instituting changes and improvements. In the draft version 4 of IGDS 240, it was indicated that one of the responsibilities of the Secretary to the HQ Procurement Review Committee

(HPRC) is to *provide an indication of timeline for completion of the Committee's review.* While this is a step forward in the right direction, it bears stressing that establishing procurement timelines should not be limited to the procurement review stage, but also on the evaluation of bids phase. To ensure the timely processing of procurement activities, establishing indicative or estimated procurement timelines for each step of the procurement process would be ideal to ensure that efficiency in the procurement process is achieved and to further enhance accountability and internal control measures over procurement management.

135. **We recommended that ILO should facilitate the issuance of a revised IGDS 240, with emphasis on the timeline for the completion of the procurement review and defined indicative timeline for bid evaluation function, as part of its procurement guidelines, taking into consideration the factors that affect its procurement processing time, to achieve efficiency in its procurement processes.**

136. **ILO Response:** The recommendation is accepted. The Office agrees that indicative timelines should be defined at the start of a particular procurement process for each major step involved, including the steps for procurement committee review and bid evaluation, the latter being undertaken by the evaluation panel under the coordination of the requesting units.

4. Control environment in field offices

137. Our audit covered the operations and transactions of the field offices for the period 01 January to 31 December 2022. The key objective of the audit is to ascertain the effectiveness of governance mechanisms (accountability, risk management, and internal controls) as well as the accuracy and completeness of financial and management information including the adequacy, efficiency, and effectiveness of controls embedded within its key and critical business processes in the general management of the field offices and in the implementation of its programmes and projects. Moreover, the audit aimed to determine whether processed transactions complied with the ILO policies, regulations, rules and procedures, and legislative authority; and to assess the resulting information from these processes through the performance of test of key controls and details of transactions. For financial year 2022, we visited DWT/COs-Yaoundé, Dakar, Port of Spain and Budapest, the Liaison Office in Myanmar (Liaison Office), and the CINTERFOR.

138. The 2018 ILO ICF recognizes that the pursuit of the Organization's strategic vision involves, among others, strengthening accountability for results and effective and efficient use of resources, to continue to demonstrate to its stakeholders that the resources entrusted to it are appropriately managed, accounted for, and used to their fullest for the achievement of strategic objectives. To this end, the ILO has developed over the years a governance framework that "rests on high quality and proportionate internal controls and oversight mechanisms to promote transparency and integrity," contained in a wide range of policies, regulations, and rules that include, among others, the Financial Regulations and Rules, Staff Regulations, accountability framework, and the directives, guidelines, and procedures issued through the IGDS.

139. Internal controls in the ILO are organized into "three lines of defense," with the Governing Body and Senior Management Team as primary stakeholders best positioned to provide support and guidance. The first line of defense pertains to functions that own and manage risks and controls on a day-to-day basis ("operational management"), which include all staff, line and higher-level managers, and Chief Technical Advisors. Thus, the first line of defense, which includes DWT/COs, the Liaison Office,

and CINTERFOR, is concerned with adherence to the Financial Regulations and Rules, and other policies, regulations, and rules, because such adherence contributes to the attainment of Organizational objectives. The corollary is also true—non-compliance, or not taking advantage of opportunities for improving compliance, may hinder the effective and efficient use of Organizational resources for realizing objectives. Along these lines, our audit was structured and offered results which are discussed in the succeeding paragraphs, to further improve the operations and management of the audited field offices.

4.1 Governance - operational guide

140. One of the principles embodied in the Accountability Framework of the ILO is clarity of responsibility which holds that organizational policies and behavioural guidelines define the level and types of responsibilities attached to all positions. To achieve such clarity, operational guides are crucial and ensure that all actions are moving towards one direction – programme and projects carry out the ILO's objectives and are aligned to the Centenary Declaration and the objectives and mandate of the organization in general.

141. Two of the offices occupying unique position in the Organization's structure are CINTERFOR (Centre) and the Liaison Office in Myanmar (Liaison Office). The Centre was created as a core of knowledge management in the field of vocational training in the Americas due to the rapid changes in the world of work. For six decades, these changes remained as the predominant concern in the world of work and impacts how the Centre operates. On the other hand, the Liaison Office in Myanmar was formally established in 2002 under an Understanding between the Government of the Union of Myanmar and the ILO. Its main role then was to support efforts for the elimination of forced labour in the country and implement strategies to address its root causes. Since June 2012, ILO's mandate in Myanmar has broadened to encompass the full range of the decent work agenda with its first DWCP signed in 2018 and expired in 2022. However, the 2021 *coup d'état* in Myanmar has largely impacted its operations.

142. Owing to such uniqueness and uncertainties, the development of relevant and updated operational guides is imperative. Such guides will not only provide and set key operating components but also serve as a tool in knowledge management. The contents of the guide will serve as a driver in stimulating synergies and systematizing mission statements into delivering value to both the organization and the stakeholders.

143. Review of the operational guide of the Centre disclosed that it does not have a single document containing clear operational guide. As a result, the Centre's staffs would refer themselves to various literatures or consult with their colleagues in the Organization. Admittedly, many of their innovations or practices were not formalized, or their formalization can be scattered. On the other hand, the Liaison Office commendably has an Orientation and Operational Manual (Manual) developed in August 2021. However, since the Manual's introduction, several major developments and changes have been introduced in ILO, thus, should form part of the Manual.

144. The Centre acknowledges the need for a single overarching document to guide its operations and governance. This recognition is brought about, as inquired, by instances where time is devoted to repeatedly explain to other ILO staff the operations of the Centre. Coming out with an operational guide would also mean efficiency gains, as less time and effort would be spent on figuring out how to manage processes or explaining why things are done in a certain way. It would further significantly reduce the

time spent on substantiating decisions or proposals and improve the Centre's communication with other ILO departments as well as external partners. The Centre, therefore, is inclined with the adoption of the operational guide.

145. On other hand, the Liaison Office sees the Manual as one of the ways to support and guide the staff especially that ILO has various policies, rules and procedures and considering the context in which it operates in Myanmar. It likewise recognizes that its Manual is a living document, and as such, open to updates and improvements.

146. An overarching document, which will serve as repository of policies, guides, and procedures of the Centre's operations management, will clearly assist its staff and other relevant key actors to act in congruence with its mandated function. The operational guide could include in detail essential information of the Centre and Liaison Office's specific strategies/policies, incorporating: (a) accountability, monitoring and reporting mechanisms; (b) relationship and rules of operations with Technical Committee Members and P&B Committee; (c) related resources requirement; and (d) structure and governance. The guide could likewise preserve its institutional knowledge that would be beneficial in responding to future business changes and challenges and enhance governance of the Centre and the Liaison Office.

147. **We recommended that ILO should update the Orientation and Operational Manual of the Liaison Office and develop an operational guide for CINTERFOR that will provide relevant over-arching documents to guide the relevant actors in clearly understanding the operations of said offices for enhanced governance.**

148. **ILO Response:** The recommendation is accepted. The Office agrees with the recommendations regarding the development of a CINTERFOR Operational Guide that will detail essential information of the Centre's specific strategies and policies. Updates will be made to the existing Orientation and Operational Manual of the ILO Liaison Office in Myanmar incorporating major developments since its finalization in 2021.

4.2 Decent Work Country Programmes formulation

149. At the country level, ILO's contribution to furthering the goal of decent work is primarily manifested in the DWCPs, the development of which is required of COs, including the Liaison Office in Myanmar, under the ILO DWCP Guidebook, among other ILO issuances. DWCPs provide guidance on resource allocations at the country level and ensure harmony between national priorities and the overall direction of the organization through the linkage of CPOs with Organizational outcomes. Our audit disclosed challenges encountered by these field offices in formulating and monitoring DWCPs. Of the 40 total countries under their jurisdiction, only five have an active DWCP. The field offices were not able to develop DWCPs for most countries due to various reasons, which include, among others, the COVID-19 pandemic, political and social unrest, and lack of buy-in and ownership from constituents. Also, for the four DWCPs, it was noted that most of the CPOs were not evaluable because of unavailability of measurable baselines, targets, and milestones and absence (and, in one case, excess) of outcome indicators. On the other hand, measuring Myanmar's progress vis-à-vis its DWCP could not be made by the Liaison Office because of issues in reporting of accomplishments caused by political factors. Without properly developed DWCPs, it would be difficult to accomplish the objectives of the organization at the country level, thereby risking the implementation of programmes and projects that depart from targeted Organizational outcomes.

4.3 Development Cooperation implementation

150. For programme and project implementation, monitoring, and reporting, we noted that risk discussion was not sufficiently incorporated, if at all, in the project design stage of five projects implemented by DWT/CO-Yaoundé, as is required under the ILO DC Manual. Also, an improvement opportunity to develop a resource mobilization strategy was noted for the Liaison Office in Myanmar. Workplans for DWT/CO-Dakar and CINTERFOR were not expressed with specific, measurable, achievable, relevant, and time-bound (SMART) attributes, precluding evaluation, while there were deficiencies in documentation of DWT/CO-Yaoundé's Implementation Plan. Also, in the case of the Liaison Office in Myanmar, the implementation and monitoring plans were not even utilized in at least three projects.

151. Non-revision of budget for a project implemented by DWT/CO-Dakar resulted in seemingly low delivery rate vis-à-vis actual representation of work plan and status of implementation, while low budget utilization rates were also observed for projects implemented by DWT/CO-Yaoundé, Port of Spain, and Budapest. Timeliness was also noted to be an issue in the: implementation of DC projects due to disruptions caused by the pandemic and the 2021 *coup d'état* in Myanmar; preparation or submission of donor reports; and updating of outputs in the SM/IP module. We have also noted the incurrence of expenditures that were incorrectly charged against RBTC, as well as negative balances on RBTC budget lines due to insufficiently capacitated staff.

4.4 Human resource management

152. We also reviewed human resource management by the DWT/COs, the Liaison Office in Myanmar, and CINTERFOR to determine the level of compliance with existing policies, regulations, and rules. As at audit date, remaining vacancies of the total staff complement of DWT/CO-Yaoundé and Port of Spain numbered to nine and three, respectively, while we noted the need to enhance DWT/CO-Dakar's timely recruitment of project personnel. For the Liaison Office in Myanmar, we noted that policies and procedures on local hiring of staff were not clear. There were also delays in performance appraisals, where BoC drafting, BoC reviews, and EoC reviews were not made within the timelines prescribed under the pertinent IGDS, if at all. Moreover, personnel performance may not be evaluated because of inadequate information in ILO People, the absence of SMART attributes in the outputs, as well as workload and health concerns.

4.5 Travel management

153. Review of travel management also resulted in highlighting improvement opportunities regarding compliance with the requirements on advance travel planning, on observance of the reglementary periods on travel requests, authorizations, ticket bookings, and claims, and on preparation and publication in Meet and Share of mission reports.

4.6 Sub-contracts, including external collaboration contracts, grant agreements, and Implementation Agreements

154. As for the management of external collaboration (ExCol) contracts, we noted improvement opportunities when it comes to proper utilization of ExCol contracts as a modality, ensuring the ExCol's status as external to the ILO, the visibility of ExCol contracts and TORs in IRIS, the timely completion/delivery by ExCols of their outputs, and proper documentation of commentaries on the

performance of ExCols. Review of management of grants also revealed: (a) an instance where inadequate monitoring resulted in the awarding of a new grant to a grantee without prior compliance with the reporting requirements of the previous award; (b) multiple instances where the grantees' narrative reports and certifications, as well as the Director's assessments, were wanting; and (c) an instance where assessments of whether the grants were utilized in accordance with the grant agreement was made by an authorized official. Further, we noted that in DWT/CO-Budapest's management of Implementation Agreements (IAs), an advance payment was made to an IP in excess of the payment threshold, and no retention money was withheld for two IAs, while for the Liaison Office in Myanmar, gaps were noted on the limit on allowable amount of advance payment in seven IAs by requiring that second payments be conditioned upon the submission of detailed workplans only.

4.7 Management of furniture and equipment

155. We observed that DWT/CO-Yaoundé recorded items in the Physical Inventory Management System (INI) that did not warrant such recording, while also not recording furniture and equipment (F&E) items in INI that should have otherwise been recorded therein based on existing policies, regulations, and rules. On the other hand, the INI inventory reports of DWT/CO-Dakar showed incomplete or improperly filled out column fields (e.g., item description, purchase order (PO) number, receipt date, invoice number, invoice amount, invoice date).

4.8 Cash management

156. Review of cash and/or accrual management of CINTERFOR, DWT/CO-Port of Spain, and the Liaison Office in Myanmar also disclosed improvement opportunities when it comes to: (a) controls over the use of personal bank account as ILO Cash box; (b) using the correct operating cash advance form; (c) authorization, and creation of prepayment invoices, for the establishment of petty cash; (d) monthly replenishment of petty cash; (e) monitoring of accruals, including those involving petty cash transactions, recurring expenses, and open contracts; and (f) ensuring visibility of the proof of satisfactory delivery and acceptance of goods and services.

157. While we noted that the field offices under audit were generally compliant with the policies, rules, and regulations established by ILO, opportunities for enhancing or facilitating compliance in certain areas were still noted. Greater extent of compliance by these field offices, as ILO's first line of defense, is fundamental in promoting Organizational outcomes, so ILO should endeavor to understand and resolve the challenges encountered by field offices in adhering to established policies, rules, and regulations.

158. **We recommended that ILO should address the challenges or factors causing non-compliance, through clear, open, and continuous communication lines and feedback loops between and among HQ and field offices, strengthening monitoring control mechanisms, and providing capacity building activities to strengthen control activities in the field offices.**

159. **ILO Response:** The recommendation is accepted. Individual findings identified in the audits of the field offices concerned are being addressed or have already been dealt with. The recurring issues are being reviewed by the relevant management units and will be addressed through the enhancement of guidelines and training, further policy development if necessary and through regular and open communications and capacity building. Since 2021, the Office has been supporting finance staff in the field offices to undertake a professional training programme in collaboration with the Chartered

Institute of Public Finance & Accounting (CIPFA). Most recently in April 2023, a three-day Global Finance Team workshop was held in Geneva with the participation of all Chiefs of Regional Administrative Services (C/RASs) and their finance and operations officers, covering a wide range of topics over and beyond those listed above.

4.9 Risk management process in field offices

160. The ILO commits in strengthening its capability to identify, appraise, respond, and report on risks. Regarding risk, a systematic and coordinated approach to direct an organization and its activities i.e., risk management, was adopted by ILO ensuring that risks are taken consciously, benefit – in terms of relevance, effectiveness, impact and sustainability - outweighs risk, and risk avoidance measures are commensurate with risk. This risk management facilitates an informed management decision.

161. We have noted some improvement opportunities concerning risk management. The risk registers or risk events in the DWT/CO-Budapest and Yaoundé, and the Liaison Office in Myanmar are generally contextualized thereby deterring Management on applying the most effective risk management strategy for the immediate assessment and resolution of the identified risks. In addition, DWT/CO-Yaoundé's Crisis Management Playbook did not possess the necessary attributes of a responsive guide during crisis situations exposing them to risk associated to natural disasters, technological emergencies and terrorist-related incidents and even during health emergencies. Also, risk management process in Liaison Office in Myanmar was not formalized through proper documentation despite the heightened uncertainty due to COVID-19 and 2021 *coup d'état.*

162. No localized risk registers or risk repository has been identified in DWT/CO Yaoundé's areas such as Programme/Projects and HR, at least five project risk registers were not given country context in Liaison Office in Myanmar, while procurement has not been incorporated in risk area of the DWT/CO Port of Spain. Moreover, in DWT/CO-Dakar, a detective and generic preventive measure for risk response was considered as inadequate compared to the management's risk score given that the risk was assessed as likely to happen and have a high impact. Furthermore, risk identified on Country Programme Outcome Report was not logged in the CINTERFOR's risk register. These noted deficiencies could result in risk escalation and risk mitigation problems.

163. The person assigned to coordinate risk responses – risk owner – should be assigned with manageable number of actions. Risk Management Manual mandates that a condition of no more than five risk responsibilities per risk owner. Review revealed that risk owners of DWT/CO-Dakar, Liaison Office-Myanmar, and CINTERFOR exceeded the required number of risk responsibilities. The limit for assigned risks ensures effective risk management since focus can be properly given by risk owner to a specific risk.

164. In summary, we noted that that there is a need to address the following: (a) restating the contents of risk registers using specific terms; (b) documenting localize risk register such as Programme/Projects, HR, and Procurement; (c) ensuring that the risk responses commensurate with risk likelihood and impact and that risk register includes all identified risk; and (d) limiting the number of risk responsibilities to a specific risk owner pursuant to ILO Risk Management Manual.

165. **We recommended that ILO should address the observed improvement opportunities through efficient and effective monitoring by HQ and Regional Offices and providing training to field staff to ensure robust implementation of risk management in the field offices.**

166. **ILO Response:** The recommendation is accepted. Following the completion of risk registers by field offices in 2022, a review will be conducted during 2023 to identify areas of improvements, both for the platform and the methodology used to assess risk. Training was provided to field staff on the use of the platform during the 2022 risk register exercise, and further actions will be taken to promote the training in respect of risk management following the review.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS FROM PREVIOUS YEARS

167. We validated the implementation of External Audit recommendations contained in prior years' audit reports. The status of implementation of the recommendations is summarized as follows:

Audit Report	Number of Recommendations	Fully Implemented	In Progress	Partially Implemented	Implemented on an ongoing basis
2021	20	13	5	1	**1**
2020	14	12	1	0	**1**
2019	24	20	3	1	**0**
2018	9	7	0	2	**0**
2017	10	10	0	0	**0**
2016	16	13	1	2	**0**
Total	**93**	**75**	**10**	**6**	**2**

168. We noted that ILO Management fully implemented 75 of the 93 recommendations from 2016-2021, registering an implementation rate of 80.65 percent. While the action by Management is commendable, there are 18 recommendations which implementation was either in progress or partial. Annex A presents the details of the status of implementation of the external audit recommendations as at the reporting period.

D. DISCLOSURES BY MANAGEMENT

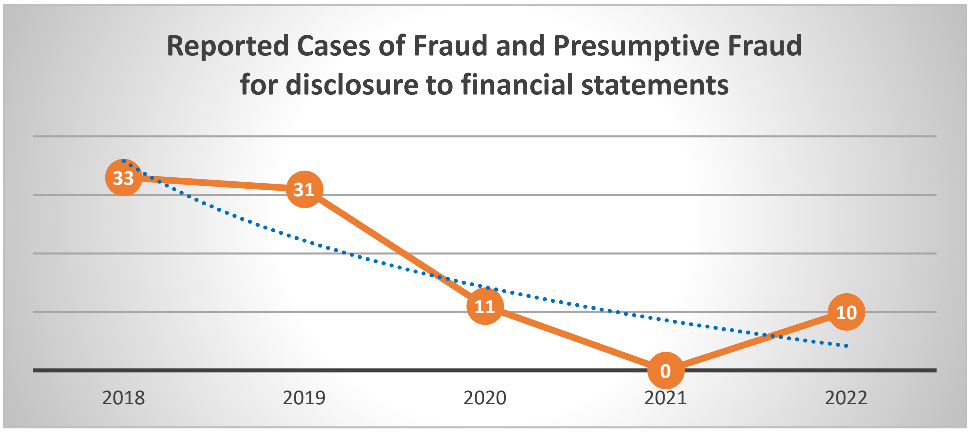
169. **Write-off.** Management reported that in accordance with article 33 of the Financial Regulations, a total of USD1,355,932.98 in 2022 (USD189,629.78 in 2021) were approved for write-off by the Treasurer~~.~~ We noted that the write-offs were in accordance with the Financial Regulations.

170. **Ex-gratia payment.** In accordance with article 32 of the Financial Regulations, ILO made extra-gratia payments of USD15,000.00 in 2022 (USD21,168.47 in 2021).

171. **Cases of fraud and presumptive fraud.** Pursuant to Financial Rule 8.40 (Loss of cash or negotiable instruments, cases of fraud) and in conformity with Financial Rule 13.10 (Cases of fraud, presumption of fraud or attempted fraud), 10 cases of fraud or presumptive fraud in 2022 were reported to us for disclosure in the financial statements. TheTreasurer and Financial Comptroller (TR/CF) applies judgement when identifying cases to be reported, this is based upon the information gathered on the initial allegations, on IAO reports and the progress of investigations. Cases pending investigation results are not reported, unless there is sufficient initial information or evidence for the fraud or presumptive fraud to be clearly identified and estimated. There remain eight cases whose results of investigations are still pending as at audit date.

172. Nine of the 10 reported cases involved field offices: three of these pertained to theft, misappropriation, or misuse of ILO assets; three entailed procurement fraud, of which one case involved collusion between external actors (i.e., bidders); two involved actions of Implementing Partners; and one case related to rental subsidy claim of an ILO staff. The other case referred to a former ILO-HQ staff's unauthorized teleworking while claiming a higher post adjustment.

173. This results in a general downward trend of reported fraud and presumptive fraud noted for the past five years, but tend to increase after the COVID-19 pandemic, as shown in the graph below:



E. ACKNOWLEDGEMENT

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

175. 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 FROM PREVIOUS YEARS

(ILC.110/FIN/2021, ILC.109/FIN/2020, ILC.109/FIN/2019, ILC.108/FIN/2018, and ILC.106/FIN/2016)

<table>
<tr><th colspan="2">Recommendations</th><th>External Auditor's Validation</th></tr>
<tr><td colspan="3">ILC.110/FIN/2021</td></tr>
<tr><td>1</td><td>Review of Programme Implementation and Delivery of Outcomes 6 and 7 - Achievement and delivery of outcomes
Strengthen the support to the field offices with a robust backstopping and needed staff training in ensuring alignment of their respective DWCP objectives to the ILO's strategic results framework for the corresponding biennium with consideration to the linking of each CPOs to the policy outcomes and delivery of reportable results. (Para. 31.a)</td><td rowspan="2">Fully implemented
The recommendation is accepted. The Office agrees with this recommendation which has already being acted upon. Improved alignment of country-level programming with the global goals and results framework of the Organization is an important focus of initiatives the Office delivered in 2022-23 to strengthen capacity of ILO staff and constituents in this area, including through the OBW review process, the preparation of three OBW Status Reports (April and October 2022, February 2023), and the 2022 annual OBW report. The implementation of the DC Strategy 2020-25 also provided an opportunity to further strengthen the alignment of ILO resources mobilization efforts with the outcomes set in the P&B with a view to securing the necessary funding and achieving the expected results.</td></tr>
<tr><td>2</td><td>Review of Programme Implementation and Delivery of Outcomes 6 and 7 - Achievement and delivery of outcomes
Perform strong coordination with funding and tripartite country partners, with the end view of securing the required funding and achieving targets set in the P&B towards reaching the Outcomes' full potential. (Para. 31.b)</td></tr>
<tr><td>3</td><td>Review of Programme Implementation and Delivery of Outcomes 6 and 7 - Achievement and delivery of outcomes
Endeavour to accomplish the targeted CPOs of Outcomes 6 and 7 through intensified analysis of the circumstances that delay their achievement and manage the challenges encountered in programme implementation in consideration of the lessons learned and improvements suggested by the Outcome Coordinating Teams (OCTs) to heighten the performance in the 2022-23 P&B. (Para. 40)</td><td>Fully implemented
The recommendation is accepted. The Office has built on lessons from the implementation of the programme in 2020-21 and has strengthened measures to monitor delivery and address challenges timely with a view to improving performance in 2022-23. The OBW Status Report of April 2023 shows that there has been progress in the number of target CPOs for both outcomes.</td></tr>
</table>

	Recommendations	External Auditor's Validation
4	**Review of Programme Implementation and Delivery of Outcomes 6 and 7 - Achievement and delivery of outcomes** Increase outreach to, and advocacy with development partners and the donor community globally, by showcasing the impact of Policy Outcome 6 interventions and initiatives with the end view of enhancing resource mobilization for this outcome in line with the 2020-25 DC Strategy. (Para. 47)	**In progress** The recommendation is accepted. The Office will consider the necessary action during the implementation of the P&B for 2022-23 and the DC Strategy 2020-25. A concrete example will be the development, before the end of 2023, of an ILO business case for investing in social justice and decent work. The business case will also present the ILO's operational capacity from a value-for-money perspective. It will provide a key tool in fostering partnerships and enhancing resource mobilization.
5	**Review of Programme Implementation and Delivery of Outcomes 6 and 7 - Monitoring and reporting of results** Strengthen its existing data collection and review mechanism on reporting results in the Programme Implementation Report (PIR) through robust and improved Outcome-based Work planning to include: a. a stronger focus on monitoring of results throughout the biennium, based on a better understanding of the expected changes that are measured through the output indicators as further detailed in the Technical Notes; and b. lessons learned, thus, sharing and using knowledge derived from experience in the preparation of the PIR 2020-21 by relevant officials in field offices and at HQ to promote the recurrence of desirable and innovative results that can lead to improvements in the preparation of the PIR 2022-23. (Para. 57)	**Fully implemented** The recommendation is accepted. Improvements introduced in 2022-23 provide for an enhanced framework to monitor progress towards results throughout the biennium. These include the periodic OBW reviews focused on more strategic discussions on the expected results to be achieved under each outcome and output, based on the P&B strategies and indicators, and considering opportunities and challenges in each region, combined with regular exchanges between HQ departments and regions on related operational issues. The Office has taken stock of the lessons learned from the preparation of the PIR 2020- 21, as an input to improve the preparation of the PIR 2022-23.

	Recommendations	External Auditor's Validation
6	**Review of Programme Implementation and Delivery of Outcomes 6 and 7 - Monitoring and reporting of results** Consider the review of the quality assurance function and processes in the monitoring and reporting stages of programme/project implementation by: (a) strengthening programming capacity for this purpose; (b) considering the required skill sets as well as the accountability of OCT members, RPUs and field programme officers; and (c) incorporating the function in the performance management measurement of the staff to exact responsibility and performance. (Para. 65)	**In progress** The recommendation is accepted. The Office will consider possible action to improve the quality assurance function and strengthen programming capacity for this purpose within the context of capacity development initiatives targeting staff with programming responsibilities during the biennium, and during the preparation of the Programme Implementation Report 2022-23.
7	**Review of Programme Implementation and Delivery of Outcomes 6 and 7 - Monitoring and reporting of results** Enhance the monitoring of resource allocation and utilization to optimize deployment of resources by including in the OBW review an analysis on the manner resources XBDC, RBTC and RBSA are planned, allocated and distributed thus, the immediate determination of resource gaps in its fund distribution to each Policy Outcomes. (Para. 75)	**Fully implemented** The recommendation is accepted. The Office agrees with this recommendation which has already been acted upon. In 2022-23 improved OBW reviews were based on an analysis of all resources (XBDC, RBTC and RBSA) planned, allocated and delivered by outcome and by region. This information was included in the OBW Status Reports. In turn, this led to timely decisions on the programming and repurposing of resources, building on accurate information on commitments, evolving needs and expenditure patterns.
8	**Review of Programme Implementation and Delivery of Outcomes 6 and 7 - Monitoring and reporting of results** Enhance the monitoring of projects funded by voluntary contribution, thus, improving project delivery by: a. revisiting the TOR of the OCTs and clarifying the OCT member's roles in monitoring, implementation, and delivery of RBSA and XBDC funded projects; and b. encouraging the OCTs to strengthen the mechanism in identifying bottlenecks and	**Fully implemented** The recommendation is accepted. The Office agrees with this recommendation and considers that it has already been implemented in the follow-up to previous audit recommendations. Point (a) has been addressed in the revised TOR of the OCTs, published in February 2022. Point (b) has been addressed through the OBW Status Reports and the OBW review carried out in March-April 2023.

	Recommendations	External Auditor's Validation
	capacity or resource gaps thus, proposing corrective measures through the OCT's aggregated view of the programmatic and financial progress of RBTC and XBDC projects. (Para. 84)	
9	**Review of Programme Implementation and Delivery of Outcomes 6 and 7 – Policy, strategy, and framework** Review its programmatic activities to ensure that these are gender-responsive and transformational in conformity with the ILO Centenary Declaration through the consistent and accurate application of the gender marking rating system. (Para. 92)	**Fully implemented** The recommendation is accepted. The Office agrees with this recommendation which is already under implementation in the follow-up to previous audit recommendations. Consistency in the application of the gender equality and non-discrimination marker has been strengthened in the context of planning for and monitoring implementation of OBWs, including through the 2022 OBW annual report and the OBW Status Reports. In addition, the Office has enhanced consistency with UN practice to facilitate monitoring of and reporting on ILO contributions to gender equality within system-wide activities of UN Country Teams.
10	**Review of Programme Implementation and Delivery of Outcomes 6 and 7 – Policy, strategy, and framework** Align the gender markings of DC projects through the project appraisal with the Guidance Note on Gender Equality and Non-discrimination (GEND) for clarity and comparability of application of markings to ensure efficient and consistent reporting on gender equality. (Para. 99)	**Fully implemented** In order to harmonize the gender markers at the project level with those at the level of CPOs and GLOs as per "PROGRAM's Guidance note on gender equality and non-discrimination - definition of marker codes and examples", the "Guidance note - Gender equality and non-discrimination marker in development cooperation programmes and projects" has been developed for ILO staff working on project design and implementation. This, together with the updated "how to" guide, has provided the know-how to mainstream gender equality and non-discrimination in DC projects, and to assign a gender equality and non-discrimination marker using a three-point scale. This strong alignment between the scoring at the GLO/CPO level and at the project level, as well as their coherent application, will facilitate ILO's efforts towards realizing gender equality and non-discrimination within an integrated programmatic and resource framework. This has been communicated via the Community of Practice, in

	Recommendations	External Auditor's Validation
		the news thread "Gender mainstreaming in development cooperation project proposals" and are available on PARDEV intranet. As next steps, the gender marker three-point scale will be introduced in IRIS/OGA (later visible in the DC Dashboard).
11	**Review of Programme Implementation and Delivery of Outcomes 6 and 7 – Policy, strategy, and framework** Spearhead a capacity building/training for gender marking usage and updates, as well as the implications of gender marking in ILO programming activities, targeted at OCT leads and relevant support persons within their teams: CO directors, programming officers, Regional Programming Unit staff, DC project designers, implementers and other national actors participating in the projects to ensure enhanced, accurate and rigorous reporting on the ILO's advocacy on GEND. (Para. 106)	**Fully implemented** Last biennium, interactive presentation and podcast on gender inclusion were developed and disseminated both in the DC Learning Journey (DCLJ) platform and in the DC Community of Practice. In addition, capacity building tools and trainings on gender equality and non-discrimination are planned for DC project designers and implementers as part of the DCLJ 2022-23 under the learning track "Mainstreaming inclusion and a just transition." On PARDEV intranet, ILO officials can access the above-mentioned tools, as well as the updated "how to" guide on gender mainstreaming and the guidance note - the gender equality and non-discrimination marker, among others.
12	**Review of Programme Implementation and Delivery of Outcomes 6 and 7 – Policy, strategy, and framework** Consider benchmarking with the best practices of UN entities, in the integration of United Nations System-wide Action Plan (SWAP) performance indicators on financial resource tracking and resource allocation into the ILO results-based reporting and embed the same to the related ILO GEND policies, strategies, and guidance to facilitate financial tracking and allocation of GEND activities. (Para. 114)	**In progress** The recommendation is accepted. Work to improve resource allocation and tracking of expenditure in relation to gender equality and non-discrimination activities will be undertaken in 2022-23.
13	**Review of IAs - Lenient adherence to the requirements on competitive selection of Implementing Partners (IPs)** Avail of the opportunity of the upcoming updates to IGDS 270 and associated guidelines to solidify requirements related to exceptions to competitive selection and	**Fully implemented** Procedures and guidelines were published on Finance Intranet in 2022, which includes detailed steps in relation to the selection process of implementing partners. IGDS 270 (version 3) has been published in November 2022.

	Recommendations	External Auditor's Validation
	donors' pre-approval of IPs to ensure the observance of accountability and transparency in the selection of IPs. (Para. 122)	
14	**Review of IAs - Delayed submission or completion of deliverables** Develop a robust monitoring and follow up of IA's deliverables within the timeframe including the timely assessment of situations that can lead to project extensions while ensuring the quality of outputs and optimal use of resources, as well as to minimize, if not eliminate, the delays in the achievement of the targeted outputs. (Para. 128)	**Fully implemented** Procedures and guidelines were published on Finance Intranet in 2022, which includes detailed steps to help managers to the perform timely monitoring and implement remedial actions.
15	**Review of IAs - Lack of clear guidance on documented performance evaluation of IA** Strengthen its management controls over the evaluation of IPs by: (a) at the project design stage identifying key performance indicators for the IA to be measured; (b) at the time of award of contract, detailing procedures for the preparation of the IP's performance evaluation report which should be included in the PO; and (c) establishment of a system to collect, monitor and report the performance data, to ensure an efficient and effective performance evaluation of IPs. (Para. 134)	**Partially implemented** Procedures and guidelines were published on Finance Intranet in 2022, which includes the requirements to (a) include key performance indicators in the terms of reference that are specific, measurable, realistic and timebound, and are well understood by the ILO and the implementing partner; (b) make progress payments contingent upon the agreed delivery of the outputs and timelines, and substantiated by the technical and financial reports; and (c) set up an internal system to regularly monitor and document the performance of the partner in a timely manner and with tangible evidence, against the key performance indicators. The Office is evaluating the additional requirements both internally and in the context of the JIU recommendations with the anticipated completion by end of 2023.
16	**Review of IAs - The need to enhance controls in the submission and receipt of deliverables** Design a method or process of recording the actual dates of submission and receipt	**In progress** The project on the recording of dates of submission and receipt of deliverables for project monitoring purposes is underway and expected for implementation by June 2023.

	Recommendations	External Auditor's Validation
	of deliverables to establish controls in ensuring whether the IPs delivered their products/services in a timely manner to aid in estimating and drafting timelines reflecting a more realistic project and activity duration. (Para. 141)	
17	**Control environment in Country Offices - Compliance with policies, regulations and rules** Enhance its control activities by observing complete and consistent compliance with policies, regulations and rules by addressing the challenges or factors causing non-compliance through clear communication and continuous monitoring of application of operational guidelines. (Para. 159)	**Implemented on an ongoing basis** The recommendation is noted and accepted. The Office will review its control environment and remind individual departments, regional programming units, external offices and budget holders of their responsibilities.
18	**Control environment in Country Offices - Programme/project delivery – budgetary control** Implement an effective strategy in coping up with the challenges that caused the low project financial delivery/utilization and ensure adherence to existing budgetary controls to reflect an improved utilization of funds which may result in the timely delivery of projects. (Para. 165)	**Fully implemented** The recommendation is accepted. With the recovery from the pandemic and opening of economies and civil society around the world, ILO projects have been able to improve both their delivery of outputs and the rates of utilization of the project budgets. Delivery and income/expenditure levels are constantly presented in the Development Cooperation Dashboard.
19	**Control environment in Country Offices - Risk management process** Reinvigorate its risk management process in the DWT/CO by considering the following elements and factors: (a) include a much wider risk universe; (b) greater involvement of staff from all levels; and (c) regularly update the risk register to consider the outcome of the renewed risk management process. (Para. 172)	**Fully implemented** During 2022, the Office revised its risk catalogue, developed a template risk register to broaden understanding of critical areas of uncertainty, and introduced a new risk management platform, which included new functionalities. The combination of the template risk register and the new platform increased the number of risks identified by 48 per cent and the number of risk owners by more than a third. The update of risk registers has been completed by all field offices and training sessions were held on the use of the new platform as well as address any issues raised.

	Recommendations	External Auditor's Validation
20	**Implementation of External Audit Recommendations from Previous Years** Adopt an action plan and strategy to map out the progressive implementation of the external audit recommendations to further improve operational efficiency. (Para. 178)	**In progress** The recommendation is accepted. The Office is actively following up on the outstanding external audit recommendations and ensuring their implementation in a timely manner. It should be noted that, considering the nature of the recommendations, some require actions over a longer duration, for example over the course of the current biennium.
ILC.109/FIN/2020		
21	**Implementation of RBTC projects:** Consider developing a guideline on reallocation of RBTC resources to priority areas should spending fall below the targeted level in accordance with the IGDS 446 to ensure full and effective delivery; and conduct a robust and periodic monitoring of RBTC allocation and utilization by determining the challenges encountered by programme managers and by providing the corresponding support in a timely manner to overcome those challenges, thereby achieving the targeted delivery rate for the biennium.	**Fully implemented** Guidance on RBTC allocation and utilization have been issued in April 2022 and is part of the ongoing OBW review process.
22	**Programming Internal Governance (IG) Manual as a readily available and up-to-date electronic policy manual:** Consider the updating and enhancement of Programming IG document as an electronic manual (e-manual) in the SharePoint for a comprehensive, concise, consistent, systematic implementation and coordination reference of the programming activities organization-wide.	**In progress** Work on the e-manual has progressed in 2022. The content has been streamlined and is being updated to reflect key new processes and resources related to results-based management, strategic programming and resource management that were not in place at the time of the previous publication. Since the Office has determined that it would not be technically feasible to directly embed a dynamic web-based e-manual in the SharePoint platform - as initially envisioned - the e-manual will instead be published as an interactive PDF available in the SharePoint no later than June 2023.

	Recommendations	External Auditor's Validation
23	**Guidance on the modalities of project implementation:** Consider in the update of IGDS 482 the inclusion of the processes and procedures in conducting virtual seminars, thereby, enshrining and preserving the use of virtual means to promote efficiency, effectiveness, and economy; and ensure consistency in the application of guidance and conduct of all online seminars across the Organization.	**Fully implemented** A review of IGDS 482 has been undertaken. It has been noted that the IGDS applies to the organization of seminars, workshops and other ILO funded events "irrespective of the source of funding or the venue". The continued use of virtual seminars post-pandemic should be assessed based on business needs. As such, it has been determined that the processes and procedures included in IGDS 482 remain valid. More detailed instructions and forms are provided in the Finance Manual.
24	**Project delivery, results accountability and capability building:** Enhance the capacity of relevant actors in DC project implementation through further specific staff development initiatives, spearheaded by HRD, in coordination and collaboration with PARDEV, Development Cooperation Budget Unit (BUD/DC), Procurement Bureau (PROCUREMENT), Evaluation Office (EVAL), and other relevant management support units, focusing on promoting effective, efficient, pro-active and adaptive management of projects to ensure swift delivery and results accountability.	**Accepted and will be implemented on an ongoing basis** A first learning product on adaptive management was developed and launched in November 2021 as part of the DC Learning Journey on project implementation. Based on the results of the impact survey completed 6 months later by 63% of participants, every fifth participant applied the tools or templates shared for programme implementation. This indicates continued reference and practical applications of the available learning items. In May 2023, a new learning journey on adaptative management, monitoring and delivery of services will be launched. In addition, the adaptive management approach has been explicitly embedded for piloting and learning in the design of the new SIDA – ILO partnership programme for 2022-25.
25	**Internal coordination:** Strengthen internal coordination by ensuring a robust TOR of the members of the Outcome Coordination Teams to include scope, purpose, responsibilities, among others, and to spell out the corresponding specific work pathways and deliverables recognizing the innovations and improvements observed by the departments in the HQ and field offices.	**Fully implemented** Revised draft Terms of Reference of the Outcome Coordination Teams were prepared by PROGRAM and circulated to OCT Leads, Regional Directors and the Director of the Turin Centre for comments in December 2021. The final TOR were available in January 2022.

	Recommendations	External Auditor's Validation
ILC.109/FIN/2019		
26	**External Collaborators – Transparency in selection process of External Collaborators:** Adopt a competitive selection process in hiring External Collaborators (Consultants) as well as adopt an updated policy for fees that can be applied by different ILO offices around the world. Fees should be justified by the level of complexity of the task. Since fees are based on the complexity of the task, the preparation of the detailed TOR should also include the qualification requirement and level of complexity of the work. The improved TOR should be attached in the IRIS to serve as reference in selection and form part of selection document.	**In progress** Pending the finalization of the internal audit report on external collaboration contracts, the revision of the IGDS is foreseen by the end of 2023.
27	**External Collaborators – Evaluation of the performance of External Collaborators:** Ensure that Programme Managers complete the evaluation form and attach the document to the Payment Request before final payment is awarded to the External Collaborator.	**In progress** Pending the finalization of the internal audit report on external collaboration contracts, the revision of the IGDS is foreseen by the end of 2023. Additional instructions will be provided to Programme Managers when the IGDS document is revised.
28	**Human resource management – Recruitment and selection policies and procedures:** Craft clear written procedures on hiring using direct selection containing appropriate controls including specific process timelines and corresponding status for more transparent, consistent and efficient recruitment process.	**Fully implemented** SOPs and process timelines for the hiring into senior positions have been crafted. Given the recent changes in Senior Management, it is planned that these will be disseminated for final approval by CABINET in January 2023. Further to discussions with CABINET and the Regional Directors, the SOPs have been adapted to include some additional elements related to the selection of Country Office Directors. The revised SOPs have recently been submitted to Cabinet for approval.

	Recommendations	External Auditor's Validation
29	**Human resource management – Recruitment and selection policies and procedures:** Craft a clear and concrete policy guideline delineating the use of call for expression on the recruitment of DC staff; restricting discretionary authority to the minimum necessary and ensure that the reasons for exceptions are duly satisfied; and, supported with operating procedures containing appropriate controls including specific timelines and milestones.	**Fully implemented** The relevant section has been developed as part of the DC recruitment toolkit to clarify the extenuating circumstances for direct selection when filling DC vacancies; the toolkit also includes the best practices and steps to be followed with regards DC recruitment.
30	**Human resource management – Recruitment and selection policies and procedures:** Update the existing mechanism of recruitment and selection of local staff in the field offices to ensure a standardized recruitment procedure incorporating best practices; and supported by operating procedures containing appropriate controls including specific timelines and milestones. This updated mechanism should be endorsed by the Joint Negotiating Committee (JNC) in accordance with article 4.2(f) of the Staff Regulations.	**Fully implemented** The DC recruitment toolkit has been finalized, which emphasizes the early start of recruitment and selection procedures to reduce project start-up times. A set of best practice for local recruitment has been developed. The toolkit has been targeted for launch in May 2023.
31	**Human resource management – Recruitment and selection methods:** Set clear parameters to measure efficiency, effectiveness and timeliness of the various stages of the recruitment process which include among others, setting a maximum length for each process stream, and exacting accountability on the process owners to enhance better performance monitoring of the whole recruitment and selection process.	**Partially implemented** Steady progress is being made in this area. A review of timelines has identified key areas where delays are occurring. These include a) quality and timeliness of screening and shortlisting by hiring managers; b) availability of assessors for assessment centres; c) availability of independent panel members. The following steps have been taken to increase efficiency, effectiveness and timeliness: a) Training materials have been developed on drafting Technical Evaluation Criteria and on preparing technical tests and marking schemes; b) two additional consultants for the assessment centre have been identified and trained in April; c) a new cohort of independent

	Recommendations	External Auditor's Validation
		panel members have been identified and will be active following training scheduled to take place in May 2023.
32	**Human resource management – Recruitment and selection methods:** Develop a system of rosters/pools of pre-assessed candidates to facilitate in the attainment of sound, timely and effective selection process.	**Fully implemented** ILO has joined the UN Mutual Recognition of Rosters (UNMRR) initiative. The UNMRR Interface Tool is now ready for use with around 1,700 pre-assessed candidates of 146 different nationalities supplied by ITC, United Nations Children's Fund (UNICEF), United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), and UNS for P-3 Finance and Budget Officer, P-3 Human Resources Officer, and P-3 Security Coordination Officer. All of these candidates have gone through a competitive recruitment process with an independent compliance review mechanism and are ready for immediate selection considerations. While ILO recruitment processes do not allow for these rostered candidates to be directly recruited, we will take advantage of the roster to enrich our candidate pools. This initiative will build on the existing roster for female National Officers, in which ILO previously engaged.
33	**Human resource management – Staff development:** Consider establishing, through the appropriate IGDS mechanism(s), a Staff Development strategy including, among others, the definition of staff development and outlining the corresponding goals and principles	**In progress** The policy is drafted and remains to be finalized, pending discussions related to the use of staff development funds by staff funded from different sources (namely RB vs DC). The Learning Strategy will be informed by the results of the Skills Mapping Project, which has been realigned to respond to the DGs P&B proposals 2024-25.
34	**Human resource management – Staff development** Reinforce and ensure availability of support, guidance, coaching and training for performance management with a focus on addressing underperformance and build increased awareness and uptake of the services available. The ILO should	**Fully implemented** The situation across the Office in terms of performance management was reviewed in 2021. The review demonstrated that there is a good basic understanding of how to manage underperformance and that this is happening spontaneously across the Office. The "Managing my performance conversation" workshop will

	Recommendations	External Auditor's Validation
	consider mandatory training for managers with development needs in the area of managing underperformance (as identified through their own: performance appraisals and/or upward feedback or as evidenced in the quality of appraisals for staff reporting to them).	continue to be offered globally online in English, French and Spanish to further improve the quality of performance discussions.
35	**Human resource management – Succession planning:** Consider drafting a succession plan as one of the outputs of the upcoming workshop of the Talent Management Branch (HR/TALENT) to have a concrete strategy and ensure preparedness of the Organization to avoid the risk of potential loss of leadership, continuity, institutional knowledge and expertise because of departure.	**Fully implemented** Starting this year, HR/TALENT has joined HR/OPS in the operational budget reviews, with a view to proactively addressing upcoming vacancies at the senior level and ensuring that P&B proposals related to upcoming vacant positions are coherent with the Organizational design needs of the Office. Furthermore, HRD has actively engaged with Programme and Finance to ensure that the skills mapping exercise will be fully integrated into the Offices Strategic planning cycle. However, it should be noted that irrespective of future needs foresighting and succession planning, changes at the senior management level have naturally resulted in certain decisions on senior positions being delayed or put on hold pending the handover to the new DG.
ILC.108/FIN/2018		
36	**Staff Health Insurance Fund (SHIF):** Clearly define in the Standard Operating Procedure (SOP) the fraud indicators or red flags as well as the predetermined criteria in assessing claims which may be initially classified under any of the fraud schemes in order to identify, on a preliminary basis, potential cases of fraudulent claims to be submitted for further investigation by the IAO. Inclusion in the SOP of the potential fraud could result in cost efficiency in terms of scaled down resources needed for investigation and more effective management of cases of fraud and presumptive fraud, with due consideration given to the rights of the insured members pending the results of a formal investigation by the IAO.	**Partially implemented** As reported in past years, the criteria and procedures for referrals of suspicious claims for investigation were established and communicated to SHIF claim adjusters in March 2019. Additional actions have been taken to address fraud risks, including extended direct payment to health care providers, enhanced electronic payment process, and training to staff on fraud detection. The implementation of SHIF Online claim submission tool has also enabled the timely application of new metrics for fraud detection. The review of the Standard Operating Procedure has resumed since 2022 and is expected for completion by June 2023.

	Recommendations	External Auditor's Validation
37	**Resource mobilization – Resource mobilization organizational structure and capacity-building:** Optimize the participation of field offices in resource mobilization by clarifying the specific roles and responsibilities of the offices including their structure for more efficient coordination, and to establish clear accountability lines.	**Partially implemented** The Office Procedure on "Project cycle management" (IGDS 154) will be revised and republished before the end of 2023 to further clarify the roles and responsibilities related to resource mobilization.
ILC.106/FIN/2016		
38	**Accountability framework:** 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.	**Partially Implemented** As reported in past years, many new mechanism and tools have been implemented over the recent years to more effectively facilitate the documentation and monitoring of accountability performance and achieve better transparency. The Joint Inspection Unit (JIU) is currently conducting a review on the accountability framework across UN system. The Office has postponed the update of its accountability framework in order to consider the JIU's observations and recommendations in this report.
39	**Asset accountability policy and procedures:** 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.	**In progress** The revised Office Procedure on "*Furniture and equipment*" (IGDS 281) includes clear criteria defining major circumstances of asset loss, establishes clear guidelines for documentation in case of asset loss and defines the levels of administrative and fiscal responsibility for each type of circumstance defined as the cause of asset loss. In the meantime, the Office is implementing a new Integrated Workplace Management System (IWMS) that will replace the existing ILO asset management tool. Its implementation is planned for the first semester of 2023.

Recommendations		External Auditor's Validation
		In order to fully reflect the functionalities of the IWMS and the corresponding guidelines, the Office plans to adapt the IGDS 281 following the implementation of the new IWMS. The final version of the procedure will be published before the end of 2023.
40	**Ethics:** a. update the Whistle-blower Policy to include the two-step process of investigation, the amount of evidence needed 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	**Partially implemented** Part (a) and part (d) have been implemented. Part (b) and part (c) are currently under review and form part of the plan of work of the new full-time Ethics Officer appointed in July 2022. With respect to part (b), there is a broader review of the ICSC principles currently underway, in which the Ethics Officer participates as ILO focal point. While the process to update the ILO Principles of Conduct is already underway to integrate the latest office governance directives, its completion would follow the adoption of the revised ICSC standards. As to part (c), internal consultations are underway, as well as collection of best practices from other Organizations, seeking to have the process completed by the end of 2023.

7. Appendix

Additional unaudited information

▶ Details of net assets revenue and expense by fund for 2022 (US$ thousands)

	Net Assets 31.12.2021	Revenue 2022	Expense 2022	Foreign exchange gain (losses) 2022	Net result 2022	Deficit financing	Adjustments to Net Assets	Net Assets 31.12.2022
Funds with approved budget:								
Regular Budget	122 005	409 733	(379 487)	(6 946)	23 300	(23 207)	409	122 507
CINTERFOR	1 559	1 643	(1 964)	(2)	(323)	–	–	1 236
ITC	27 862	50 309	(43 237)	2 442	9 514	–	(1 899)	35 477
Subtotal	**151 426**	**461 685**	**(424 688)**	**(4 506)**	**32 491**	**(23 207)**	**(1 490)**	**159 220**
Voluntary contribution activities						–	–	
Development Cooperation Projects	–	390 340	(390 252)	(88)	–	–	–	–
RBSA	55 336	17 034	(11 989)	(155)	4 890	–	–	60 226
Subtotal	**55 336**	**407 374**	**(402 241)**	**(243)**	**4 890**	**–**	**–**	**60 226**
Subsidiary funds								
Programme Support Income	118 864	41 447	(21 366)	(2 702)	17 379	–	34	136 277
Publications	1 839	188	(72)	(2)	114	–	–	1 953
Information Technology System	6 953	58	(1 650)	(2)	(1 594)	–	–	5 359
Research	15 790	149	(403)	(13)	(267)	–	–	15 523
Gifts, Grants and Reimbursable Costs	4 814	7 090	(6 428)	94	756	–	–	5 570
Land and Buildings	561 276	36 310	(10 268)	1 225	27 267	–	27 495	616 038
Building Accommodation	187 485	13 294	(33 459)	(3 009)	(23 174)	–	–	164 311
Working Capital	14 450	–	–	(77)	(77)	23 207	–	37 580
Income Adjustment Account	69 386	2 408	(827)	(881)	700	–	–	70 086
Prior Period Surplus	883	8	–	(9)	(1)	–	–	882
Special Programme Accounts	6 549	60	(84)	(61)	(85)	–	–	6 464
Terminal Benefits	19 542	894	(2 178)	4	(1 280)	–	6 813	25 075
SHIF	67 324	47 583	(50 263)	(1 902)	(4 582)	–	–	62 742
ASHI Liability	(2 022 951)	–	(70 057)	–	(70 057)	–	693 886	(1 399 122)
ASHI Reserve	27 592	2 278	(8)	(23)	2 247	–	–	29 839
Other Funds	9 655	(1 999)	(3 528)	(123)	(5 650)	–	(274)	3 731
Subtotal	**(910 549)**	**149 768**	**(200 591)**	**(7 481)**	**(58 304)**	**23 207**	**727 954**	**(217 692)**
Inter-fund elimination	–	(140 270)	140 270	–	–	–	–	–
Total	**(703 787)**	**878 557**	**(887 250)**	**(12 230)**	**(20 923)**	**–**	**726 464**	**1 754**