International
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Governing Body

347th *bis* Session, Geneva, 5 June 2023

Minutes of the 347th *bis* Session of the Governing Body of the International Labour Office

▶ Programme, Financial and Administrative Section

Programme, Financial and Administrative Segment

1. The Programme, Financial and Administrative Section of the Governing Body met on 5 June 2023. It was chaired by Ambassador Stasch (Germany), the Chairperson of the Government group, on behalf of the Chairperson of the Governing Body. Mr Matthey and Mr Dimitrov were the Employer and Worker spokespersons, respectively.

1. Programme and Budget for 2022–23: Financial report and audited consolidated financial statements for the year ended 31 December 2022 (GB.347*bis*/PFA/1)

2. **A representative of the Director-General** (Treasurer and Financial Comptroller) made brief introductory comments on the financial statements for the year ended 31 December 2022. He confirmed that the Officers of the Board of the International Training Centre of the ILO in Turin (Turin Centre) had met on 1 June 2023 and had adopted the Centre's financial statements for the year ended 31 December 2022.

3. The ILO's consolidated financial statements incorporated the full scope of the Organization's activities, those funded through assessed contributions, and those funded from extrabudgetary sources and controlled entities. The statements had been prepared in compliance with the International Public Sector Accounting Standards (IPSAS) on a full accrual basis and reflected the financial activity for 2022, in the 78th financial period (2022–23). The first section of the statements provided a financial report on the activities and challenges in the period, and a summary of the financial highlights and performance. In that regard, he was pleased to report that the level of assessed contributions remained consistent and that the overall financial position of the Office remained stable. The second section of the statements contained the Statement of Internal Control, which provided details on the level of assurance and measures taken on the Office's internal control framework. With respect to the regular budget, Statement V-A reported on the financial performance of the Office against Member States' assessed contributions. Statement V was prepared on a modified accrual basis, in line with the provisions of the Financial Regulations. Note 22 to the financial statements provided a reconciliation of the results presented under Statement II and Statement V.

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

5. **The External Auditor** (Chairperson of the Commission on Audit of the Philippines) began by introducing himself as the newly appointed Chairperson of the Commission on Audit of the Philippines and assuring the Governing Body that the Commission remained committed to delivering its mandate with competence, integrity and independence.

6. Presenting his report for the year ended 31 December 2022, he noted that the audit had been conducted, in conformity with the International Standards on Auditing, to provide an independent assurance on the fair presentation of the financial statements, support the enhancement of transparency and accountability within the Organization, and contribute to the achievement of its operational objectives. The report highlighted four themes. First, the comprehensive audit had concluded that the financial statements fairly presented the financial position of the ILO for the financial year ended 31 December 2022, in accordance with IPSAS. Accounting policies had been applied on a basis consistent with that of the preceding year, and an unmodified audit opinion had therefore been issued. He welcomed the efforts that ILO management had made to address the recommendations that had been put forward to present fairly the balance of accounts and to improve presentation and disclosures, in compliance with IPSAS. He commended the Treasurer and Financial Comptroller and his team for consistently preparing quality financial statements and for receiving an unmodified audit opinion since its adoption of IPSAS.

7. Second, with regard to the review of the operations of the Bureau for Employers' Activities (ACT/EMP) and the Bureau for Workers' Activities (ACTRAV), he noted that, while the Bureaux reported directly to the Director-General and had an important role in the tripartite structure of the ILO, as embodied in their Terms of Reference, they were perceived to be external to the ILO and more part of the workers' and employers' organizations with which they liaised. No strategy framework – an overarching document setting out important areas of operations for the Bureaux – had been prepared for ACT/EMP, while for ACTRAV, it did not consider the areas of programme and human resource management. Field staff had insufficient understanding of, and capacity in relation to, the programming cycle and reporting and monitoring mechanisms. Although the Bureaux had a global presence, their organizational structure was flat, resulting in an unclear arrangement of authority and responsibility, as there were few or no levels of middle management between the staff and the Director. Furthermore, there were a lack of staff learning and development plans and of integrated and Office-wide coordination for resource mobilization strategies. Lastly, ACT/EMP had a low compliance rate for performance appraisal exercises, and there was a need for ACTRAV to work towards compliance with the ILO Risk Management Manual.

8. On the third theme, relating to the review of procurement management, the ILO had made efforts to ensure progress towards digitization. Nevertheless, the three systems involved, namely Organizational Procurement Planning (OPP), the eSourcing platform (Jaggaer) and

Enterprise Resource Planning (ERP) – Integrated Resource Information System (IRIS), required interfacing. Jaggaer's functionality needed improvement, specifically with regard to the direct solicitation method of procurement, and contract and vendor management. Meanwhile, OPP procurement plans were detached from the principles of results-based management, as they were not linked to the corresponding outcomes. Furthermore, there was a need to enhance the procurement monitoring and reporting function by increasing staff numbers at strategic regional locations, along with a need for planning for procurement below the T2 threshold, bearing in mind that procurement activities costing less than US$50,000 were fully delegated to ILO units and field offices but lacked a procurement plan, thereby weakening global procurement monitoring and reporting. There was also a need to identify key performance indicators to achieve a more meaningful spend analysis that facilitated the planning of procurement, the management of tail spend and the advancement of sustainable procurement. Lastly, the ILO's current procurement policies lacked a definitive timeline for each step of the procurement process.

9. On the fourth theme, namely the review of the control environment in country offices, improvement opportunities had been identified for the four Decent Work Technical Support Teams and country offices, the Inter-American Centre for Knowledge Development in Vocational Training and the ILO Liaison Office in Myanmar in two key areas. These are: compliance, in their operations and key processes, with control mechanisms, rules and procedures prescribed by the ILO, deviations from which could have an impact on the integrity of financial and accounting information, the promotion of accountability and the prevention of fraud; and capacity-building for field officers and staff on identification, assessment and the contextualization of risks, together with a need to improve adherence to the Risk Management Manual.

10. In sum, 20 audit recommendations had been provided and agreed to. ILO management had also been encouraged to implement the recommendations from previous years in order to further improve operational efficiency and effectiveness.

11. **The Chairperson of the Independent Oversight Advisory Committee** (IOAC) reported on the IOAC's review of the Financial Report, the financial statements for the year ended 31 December 2022 and the Report of the External Auditor. In its review of the Office's Statement of Internal Control, the IOAC had discussed with management the areas identified as needing improvement. It drew attention to the areas identified as needing continued monitoring or further work and expressed satisfaction with the rigour with which the statement had been produced. It also commended management on the open discussion on the areas requiring further work.

12. The IOAC had reviewed with management the financial statements for the year ended 31 December 2022. Although the requirements for the IPSAS framework might seem onerous, its adoption ensured that results and financial conditions were presented on an unbiased basis and could be compared to other entities following the same standards. The Financial Report on the 2022 accounts provided an important context and explanations on the year's results and assisted understanding of the numbers recorded in the financial statements regarding the operations of the ILO.

13. The Office had again achieved an unmodified audit opinion on the consolidated financial statements for the year ended 31 December 2022 and the external audit plan had been fully executed.

14. The specific issues addressed with the external auditors had included the assurance that the major changes of assumptions used for the After Service Health Insurance (ASHI) valuation were appropriate and consistent with other UN entities; the areas identified as needing improvement in their review were ACT/EMP, ACTRAV, the Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR) and procurement management. The IOAC supported the recommendations relating to the Bureaux' visibility, outcome reporting and organizational structure as well as the need to improve system integration and monitoring in procurement and would follow up on management commitments to address those issues. Also addressed were the areas of improvement identified in the IOAC's review of the control environment in five country offices and risk management in the field offices. The IOAC was satisfied with its review and recommended that the Governing Body forward the audited consolidated financial statements and the External Auditor's report to the International Labour Conference for consideration and adoption.

15. **The Employer spokesperson**, welcoming the audit, said that the COVID-19 pandemic had proved to be a decisive test for many employer and business membership organizations (EBMOs) worldwide, as they had been required to play a critical role in supporting the private sector and in addressing the interconnected health, economic and social impacts of the pandemic, while the economic contraction and decline in enterprise activity had directly affected their income streams and ability to operate. Against that backdrop, ACT/EMP had quickly adapted its dedicated support package for EBMOs and had provided numerous employers' guides, business continuity measures and enterprise survey tools to assess the impact of COVID-19. That adaptability to build EBMOs' institutional capacity during times of difficulty demonstrated key qualities and was duly appreciated by his group.

16. ACT/EMP's unique and highly technical role within the ILO needed to be better understood and respected by the entirety of the Organization, as evidenced by the deeply worrying audit finding that ACT/EMP and ACTRAV were perceived as a "nuisance" and as "policy forces", rather than as core units of the Organization. His group urged the ILO, in particular its senior management, to reinforce the application of the internal guidance document on the Terms of Reference for both ACT/EMP and ACTRAV, to create an organizational culture that was inclusive of the two Bureaux and to respect their specific mandates. The challenge was not so much to enhance the visibility of the Bureaux as to overcome a deeply rooted cultural barrier. In that respect, his group supported the recommendation to raise awareness of ACT/EMP's operations in staff orientation activities, so that new officials and managers could consult ACT/EMP appropriately at critical stages of project or programme design, research, policy development, private-sector engagement and resource mobilization.

17. His group reiterated the need for ACT/EMP to be allocated additional resources, in particular extrabudgetary resources and support from the Regular Budget Supplementary Account. Resource mobilization had to be an Organization-wide effort led by the Partnerships and Field Support Department (PARDEV), which had the necessary expertise and mandate. His group therefore welcomed the recommendation for PARDEV to "establish a well-coordinated and systematic resource mobilization strategy" and encouraged PARDEV and the Strategic Programming and Management Department to develop a strategy to mobilize donor resources for underfunded areas of work and to place institutional capacity-building for EBMOs high on the agenda.

18. **The Worker spokesperson** noted with pleasure the External Auditor's unmodified audit opinion on the consolidated financial statements in accordance with IPSAS standards. There was a deficit of nearly US$21 million, particularly linked to foreign exchange losses from assessed contributions and return in investments. The Turin Centre had in 2021 seen a laudable 28 per cent increase in training services revenue as compared to 2020 and a US$1.48 million increase in training services revenue as compared to 2021. In the first year of the biennium, the Centre had earned revenue that was nearly equal to the second year of the previous biennium. Enrolments had exceeded targets, rising by over 34 per cent. More information was needed regarding the meaning of “non-training services to constituents” mentioned in paragraph 66.

19. Regarding the financial statements, the Workers’ group would welcome some comment on the long-term expectations on the return on investment linked to market fluctuations resulting from tightening of monetary policies, economic slowdown and increased geopolitical risks mentioned in paragraph 16. Similarly, more information was necessary on the envisaged alternative banking arrangements to diversify banking service providers, mentioned in paragraph 171, in the wake of the acquisition of Credit Suisse by UBS.

20. The Office had accepted all the 20 recommendations of the auditor regarding ACT/EMP and ACTRAV. ACTRAV served as the main link between the ILO and workers’ organizations, ensuring that the concerns and interests of workers’ organizations were incorporated in policy development and other activities of the ILO both at headquarters and in field offices.

21. Accordingly, ACTRAV had a mandate to serve workers’ groups at the ILO and to be a part of the ILO as an organization. For this reason, the Workers’ group agreed with the Employers’ group that language in paragraph 25 was a cause for concern. It fully supported the recommendations, particularly regarding visibility of the Bureaux and the strengthening of roles and responsibilities towards the ILO constituents.

22. With regard to the control environment in country offices, it was important to build the capacity of staff to strengthen control activities and risk management as recommended.

23. The Workers’ group had previously stressed the importance of follow-up on audit recommendations and urged that recommendations that were still partially implemented be tackled. The group welcomed the progress made on programme and budget issues related to outcomes 6 and 7 but opined that many of the recommendations, such as the strengthening of programming capacity, should be addressed in general. The e-manual on programming and internal governance might be helpful in that respect.

24. **The representative of the Director-General** (Treasurer and Financial Comptroller), responding to the questions raised, clarified that the work of ACT/EMP and ACTRAV was part of the work of the Office as a whole. Indeed, the auditors had held detailed discussions with the directors of both Bureaux. The Office as a whole would continue working to address the issues raised.

25. With regard to follow-up on the recommendations of the External Auditor, which was something the Office took very seriously, he noted that some recommendations took longer to implement than others, but were in progress and would not be taken off the list until they had been completed. There were no recommendations that had not been followed up.

26. With regard to the long-term expectations for investments and the movement of investments, he acknowledged that the past year had been very difficult for everyone, but the ILO was making moves to minimize any losses resulting from the increase in inflation and the move from negative to positive interest rates in Switzerland. The Organization had had a number of portfolios and equities set aside for long-term investments, and had been in regular contact with portfolio managers to move the funds to minimize losses. Going forward, funds would be moved back into the cash environment and away from equities. The Office had been working with Credit Suisse but had moved most of its money out before its acquisition by UBS, due to the increase in credit risk. At that time, the Office had had US$20 million with Credit Suisse, and those funds had since matured and been returned. The Treasury Operations team was working with UBS and through them making contact with other banks around the world, including in Singapore and Canada, to invest the Office's funds and diversify its holdings.

27. Turning to the question of the control environment in field offices, he acknowledged that there were issues, and the Statement of Internal Control reflected the nature of the ILO's operations. The Office was reinforcing risk-based training, as well as business continuity training in all external offices. In addition, professional training for field staff was being promoted, using the Chartered Institute of Public Finance and Accountancy in the United Kingdom of Great Britain and Northern Ireland. It was important to invest in people. A number of staff members had already passed exams and were now professionally qualified.

28. The small amount of money listed for "non-training services to constituents" of the Turin Centre came from multimedia, printing and advisory services and concerned a very small proportion of the overall budget. They had to be listed separately as they were not specifically voluntary contributions.

Decision

29. **The Governing Body took note of the External Auditor's report and forwarded the consolidated financial statements for the year ended 31 December 2022 and the External Auditor's report thereon to the International Labour Conference for consideration and adoption at its 111th Session.**

(GB.347*bis*/PFA/1, paragraph 4)