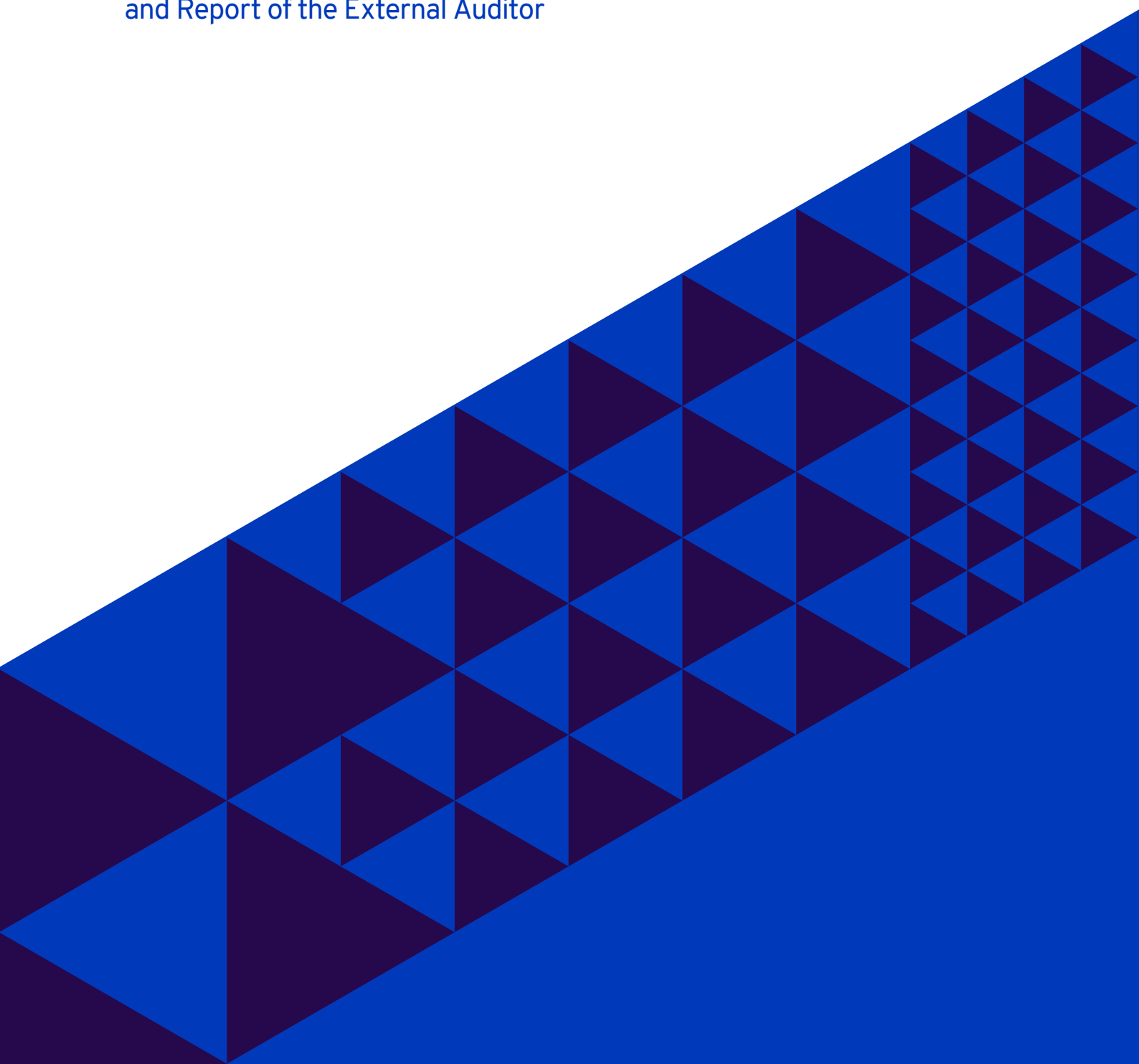


► Financial report and audited consolidated financial statements for the year ended 31 December 2020

and Report of the External Auditor



► **Financial report
and audited consolidated financial
statements for the year ended
31 December 2020**
and Report of the External Auditor

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► 1. Financial report on the 2020 accounts

Introduction

1. The 2020 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 2020 represent one half of the approved biennial budgets.
3. The financial statements prepared under IPSAS use full accrual-based accounting, which requires the recognition of transactions and events when they occur. In particular, revenue from voluntary contributions to development cooperation is recognized when the ILO delivers the services specified in the agreement with the donor, rather than when cash is received or pledged. Expenses are recognized when services or goods are received or delivered rather than when cash is paid. The value of future employee benefits such as accumulated leave, repatriation entitlements, and after-service health insurance (ASHI) is recognized in the financial statements in the period when these benefits are earned by ILO staff rather than when they are paid.
4. Reporting general purpose financial statements on an IPSAS basis has no impact on the preparation or reporting of the ILO regular budget result, which continues to be presented on a modified cash basis in accordance with the Financial Regulations. As the basis of the budget and the financial statements differ, a reconciliation between the budget and the IPSAS statement of financial performance is presented in note 24 to the financial statements.

Financial highlights for 2020

5. The COVID-19 outbreak in early 2020 became a global challenge and impacted the world economy in an unprecedented manner. In the 2019 financial statements, it was indicated that the extent of the impact of the COVID-19 pandemic on the financial performance of the ILO would depend on the outcomes of this evolving situation. Developments, including the duration and spread of the outbreak, restrictions and advisories, the effects on the financial markets, and the effects on the global economy, remain highly uncertain and still cannot be reliably predicted.
6. During 2020, the ILO was able to adjust and respond rapidly to the new circumstances, ensuring business continuity, the health and safety of staff and the provision of support to governments and employers' and workers' organizations. Limitations on physical movements resulted in a majority of personnel working remotely, facilitated by an accelerated changeover to increased use of mobile office tools during the first months of 2020.

7. Other effects manifested themselves in a variety of ways on the activities of ILO during the year. While the impact on the way ILO conducted its business was profound, the direct, visible and measurable impact on the financial performance for 2020 and the financial position at the end of the year was limited.
8. There can be no objective, exact or systematic determination of the precise impact of the COVID-19 pandemic on these financial statements as accounting and reporting systems are not intended or designed to report costs, revenues and balances based on a specific underlying cause such as this. The impact for the ILO was seen predominantly in a slowdown in the level of expenditure, with the largest decreases in travel, seminars and workshops, and staff development. At the same time, many of the fixed costs of the Office stayed relatively stable, as costs for staff salaries, office space, utilities, security and building maintenance remained constant, despite the prevalence of teleworking arrangements in most locations.
9. In accordance with *IPSAS 14 – Events after the reporting date*, the possible impact of the pandemic has been treated as a non-adjusting event for the 2020 financial statements. The situation is in constant evolution and the measures put in place worldwide by governments will have a multitude of economic impacts. Management is monitoring the situation and any impact will be accounted for when known and when it can be estimated.
10. The table below summarizes the financial situation of the ILO in 2020 as compared to 2019 and 2018 (the first year of the previous biennium):

(US\$ thousands)	2020	2019	2018
Revenue	770 113	758 236	708 361
Expenses	(769 290)	(808 544)	(742 095)
Foreign exchange gains/(losses)	55 491	16 178	3 502
Surplus (deficit)	56 314	(34 130)	(30 232)
Assets	2 642 709	2 284 181	1 953 973
Liabilities	(3 400 513)	(3 053 790)	(2 583 330)
Net assets	(757 804)	(769 609)	(629 357)

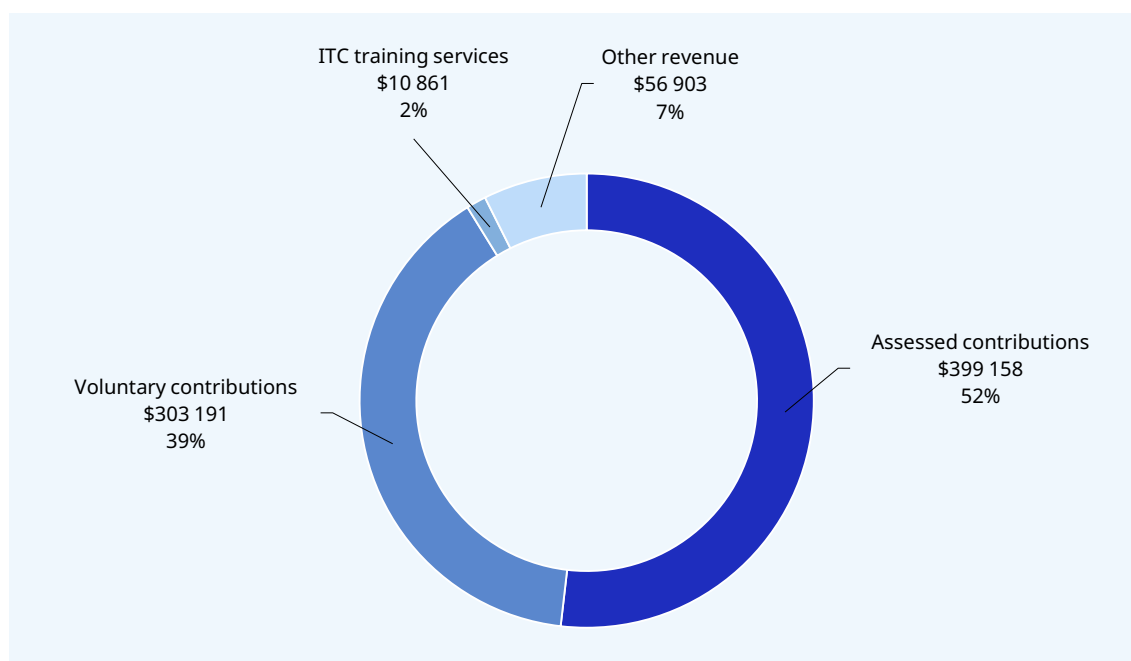
11. An analysis of revenue and expenses is provided below in the “Financial performance” section of this report. Further information on the most significant movements in assets and liabilities is provided in the “Financial position” section. The consolidated statement of changes in net assets (Statement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

Financial performance

Revenue

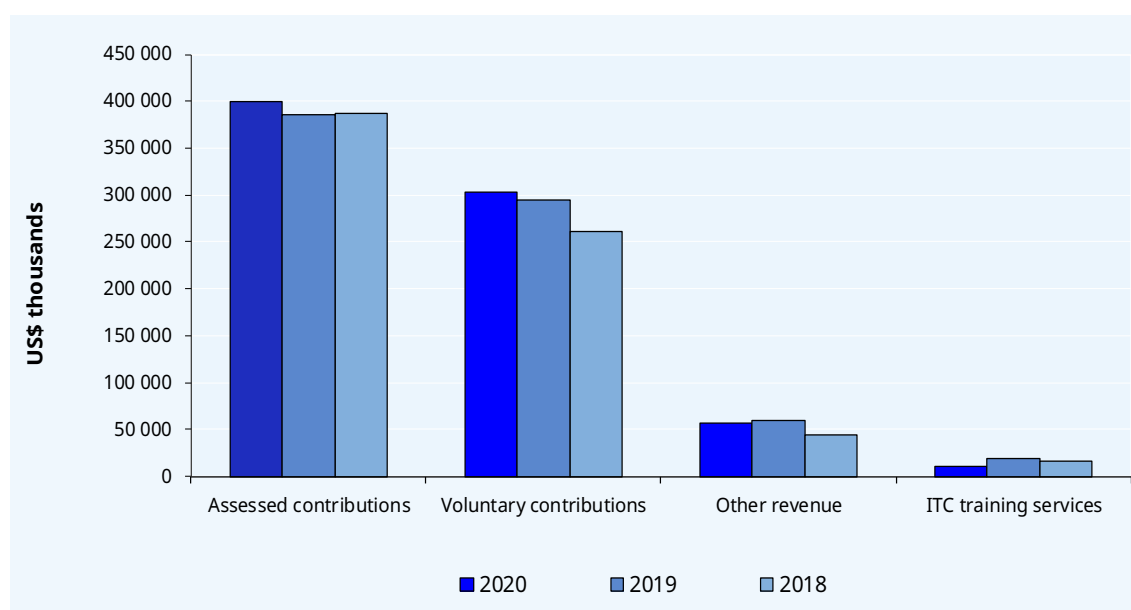
12. Revenue in 2020 totalled US\$770.11 million, representing an increase of US\$11.87 million over total revenue of US\$758.24 million in 2019. Sources of revenues in 2020 were as follows:

► **Figure 1. Revenue by source, 2020 (US\$ thousands)**



13. The two principal sources of revenue for the Organization were assessed contributions from Member States and voluntary contributions, representing 91 per cent of total revenue. Figure 2 below provides a three-year comparison of revenues by category:

► **Figure 2. Revenue, three-year comparison**



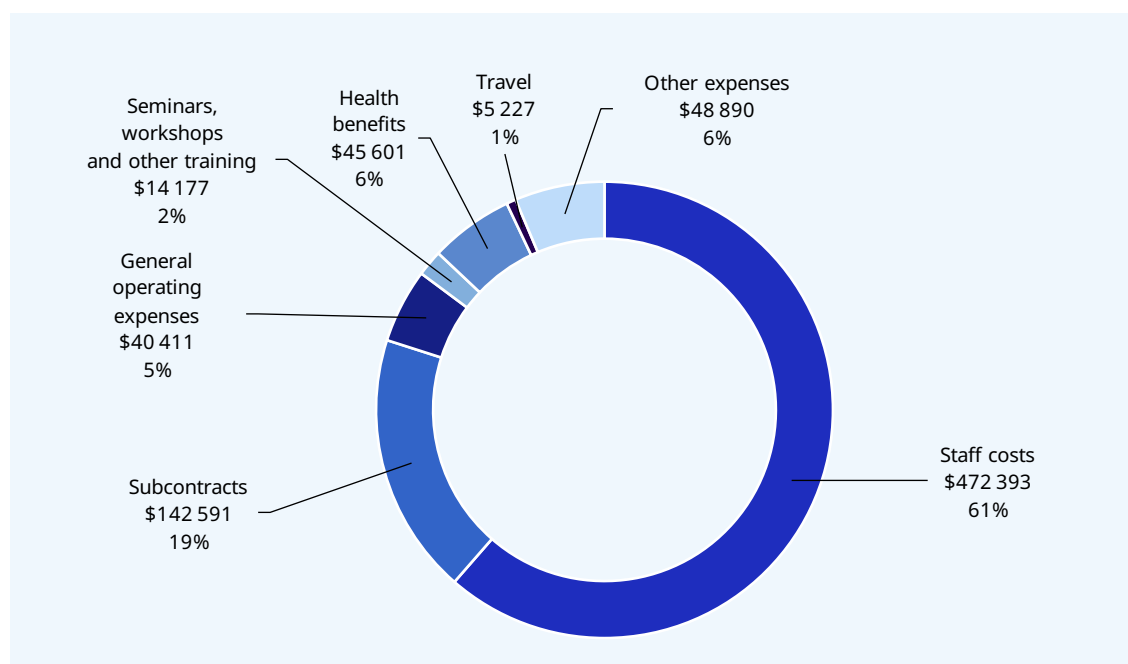
14. Revenue from assessed contributions increased by US\$13.39 million compared to 2019. Under IPSAS, the revenue for contributions from Member States assessed in Swiss francs is recognized at the beginning of each financial year, and is impacted by fluctuations in amounts assessed as well as currency 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.
15. In 2020, the revenue assessed in Swiss francs increased by CHF15.02 million, or US\$15.41 million at the current year rate of exchange, augmented by US\$4.74 million due to exchange rate fluctuations. These increases were partially offset by the increase in the provision of US\$6.76 million.
16. Voluntary contributions to development cooperation projects 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. The current year increase in voluntary contributions revenue of US\$8.66 million or 2.9 per cent is attributable to an increase in project expenditure as a result of higher overall funding levels in 2020. Details on voluntary contribution activities are provided in the "Operational activities" section of this report.
17. Other revenue includes revenue from staff and retiree contributions to the SHIF, sales and royalties, investment income, other miscellaneous revenue and a gain on the sale of investment property. The overall decrease in this category of US\$2.37 million is primarily due to a decrease in investment income of US\$7.92 million compared to 2019, partially offset by a one-time gain on the sale of a land plot under investment property of US\$4.74 million, following the decision by the Governing Body at its 337th Session ¹ to partially fund the ongoing building renovation project.
18. In 2020, the return on investments decreased significantly as a result of the economic impact of the COVID-19 pandemic. This decrease in investment income from US\$20.74 million in 2019 to US\$12.82 million in 2020 is due largely to the significant drop in interest rates on short-term deposits and the reduction in the performance of the investment portfolios as compared to the previous year. Low and negative interest rate expectations are now anticipated to be in place for some time as the impact of the coronavirus crisis has pushed many world economies into recession.
19. Training services revenue for the Turin Centre generally follow a historic pattern of comparatively lower revenues in the first year of the biennium and in 2020 this effect was augmented by changes in training modalities to distance-learning during the COVID-19 pandemic, as the unit price per training activity is much lower than face-to-face training. Additional details on the Turin Centre results are provided in the "Operational activities" section of this report.

¹ GB.337/PFA/2(Add.1)/decision.

Expenses

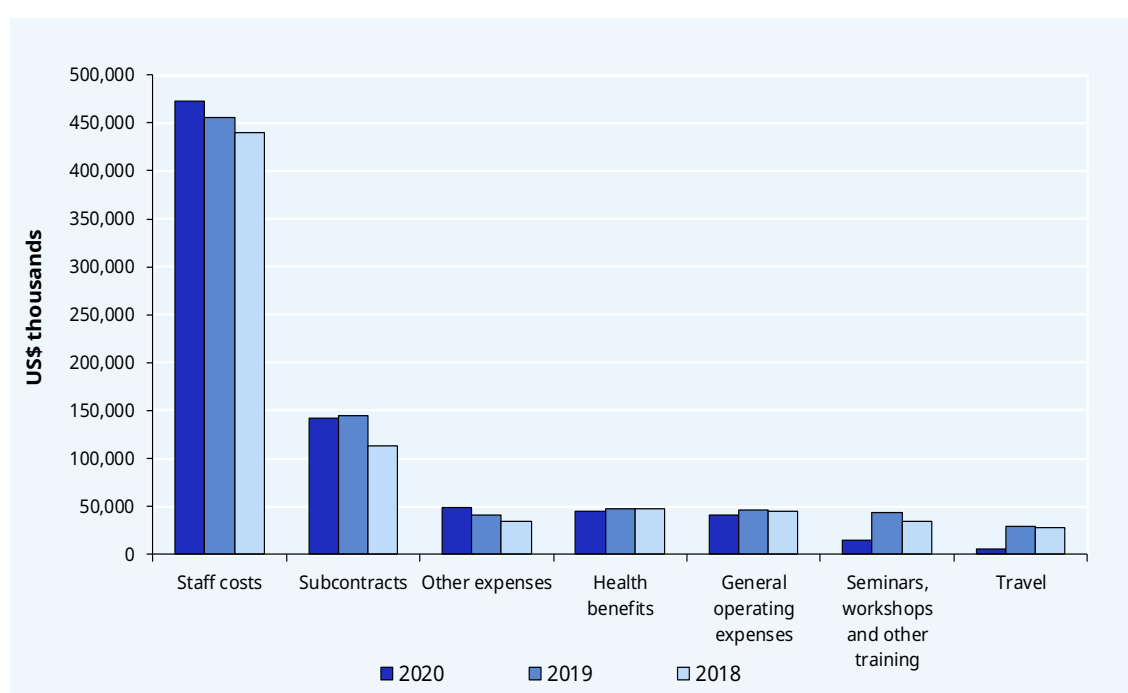
20. Expenses in 2020 totalled US\$769.29 million (US\$808.54 million in 2019) and were distributed as follows:

► **Figure 3. Expenses in 2020 (US\$ thousands)**



21. The two most significant categories of expenses for the Organization were staff costs (salaries and related benefits) and subcontracts representing a combined 80 per cent of total expenses. Figure 4 below provides a three-year comparison of expenses by category:

► **Figure 4. Expenses, three-year comparison**



22. The overall expenditure decreased by US\$39.25 million in 2020 as compared to 2019. Although there is a historic pattern of comparatively lower expenditure in the first year of a biennium, the effect of the COVID-19 pandemic has significantly contributed to the lower spending level in 2020 in certain areas. Development Cooperation activities are an exception, project expenditure has increased as a result of higher funding and delivery levels in 2020.
23. While overall expenditure decreased, mostly in non-staff expenditures, salaries and related staff costs have increased by US\$16.51 million, mainly in relation to Development Cooperation activities. Included in staff costs expenses are increases in current year charges related to future employee benefit costs of US\$7.89 million, mostly due to the higher accumulated leave liabilities, further explained in the "Employee benefits" section of this financial report.
24. Mission and statutory travel expenses decreased by 82 per cent from US\$29.48 million in 2019 to US\$5.22 million in 2020 as a result of travel restrictions, the cancellation or postponement of duty travel, as well as the impact of the pandemic on assignment and repatriation related travel patterns. The ability to undertake missions was almost entirely halted as a result and shifted mostly to virtual means.
25. Seminars, workshops and other training expenses, which also include related travel, transportation and facility rental costs, decreased by 68 per cent from US\$43.83 million in 2019 to US\$14.18 million in 2020. Despite the reduction in expenditure, many seminars and workshops were able to be held using virtual technology to enable the Organization to continue to provide its one of its core responsibilities for the provision of global training within the ILO mandate.
26. Finally, the increase in the other expenses category relate mostly to higher contributions and grants in aid, primarily due to increases in the amounts paid for UN joint activities such as the UN Resident Coordinator System included in the 2020–21 Programme and Budget. More details on expenditure related to programme delivery are provided in the "Operational activities" sections of this report.

Foreign exchange gains/losses

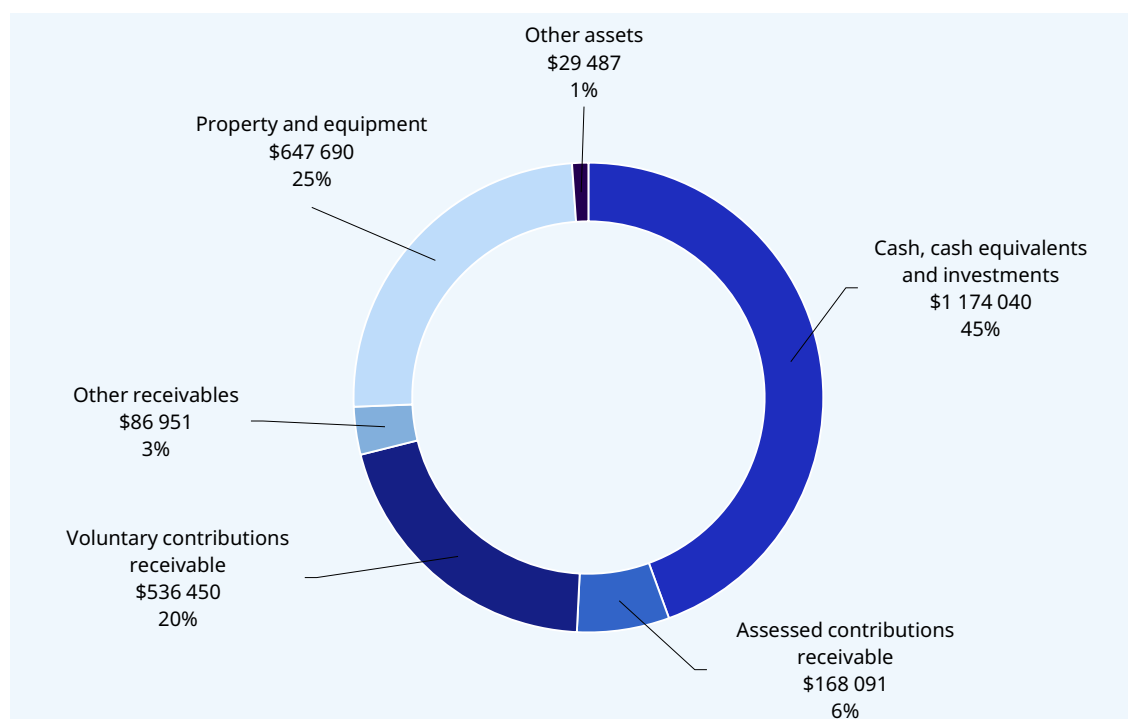
27. In 2020, the net gain on foreign exchange of US\$55.49 million consisted of US\$43.20 million unrealized gains from the revaluation of assets and liabilities held in currencies other than the US dollar and US\$12.29 million net realized exchange net gains.
28. The increase in the net gains on foreign exchange is mainly due to the significant strengthening of the Swiss franc against the US dollar over the year, which amounted to some 10 per cent. The gains were generated mainly by cash and investments held in Swiss francs as well as assessed contributions receivable which are due in Swiss francs while the losses on borrowings denominated in Swiss francs only partially offset these gains.
29. 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 18 to the financial statements).

Financial position

Assets

30. Assets as at 31 December 2020 totalled US\$2,642.71 million, an increase of US\$358.53 million over the total at 31 December 2019 of US\$2,284.18 million, and were categorized as follows:

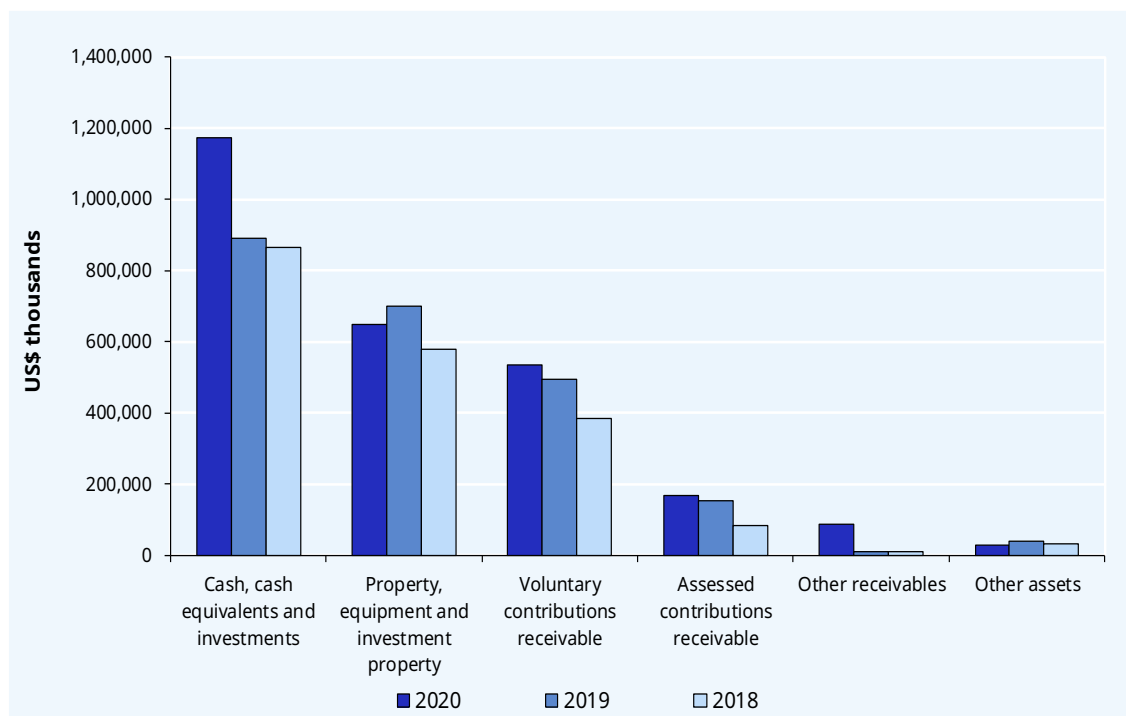
► **Figure 5. Assets (US\$ thousand)**



31. Cash, cash equivalents, and investments totalling US\$1,174.04 million (US\$890.54 million as at 31 December 2019) were the largest component, representing 44 per cent of the total assets as at 31 December 2020. Of this amount, US\$509.26 million (US\$396.56 million at 31 December 2019) corresponded to funds held on behalf of donors for Development Cooperation projects. The other significant asset categories were property and equipment, totalling US\$647.69 million or 25 per cent, and amounts receivable through assessed and voluntary contribution revenues, combined totalling US\$704.54 million or 26 per cent.

32. Figure 6 below provides a three-year comparison by asset category:

► **Figure 6. Assets, three-year comparison**



Cash, cash equivalents and investments

33. Cash and investment balances increased by US\$283.50 million by the end of 2020 mainly due to the aforementioned effects of higher donor inflows for Development Cooperation activities combined with receipts from the sale of land and buildings during the year, while expenditure disbursements slowed. Swiss franc holdings and certain investment portfolios have been positively impacted in US dollar terms by the movement of the Swiss franc to US dollar exchange rate in 2020.
34. There has been no impairment of investment assets held during this period in any of the resources invested. 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. ILO is actively monitoring all credit ratings for its cash and investment holdings and investment counterparties to enable it to act promptly should action be required.

Property, equipment and investment property

35. Property equipment and investment property is mainly composed of land and buildings with a combined market value of US\$636.80 million as at 31 December 2020, showing an increase by US\$97.09 million or 18 per cent over the prior year. Investment property with a value of US\$149.11 million was divested in 2020. Market value is a point-in-time estimate calculated by an independent valuer in accordance with international valuation standards.

36. The increase in land values in Geneva for 2020 reflects the evolution of the prices for property where the land plots are situated, with increased interest from developers that was driven by the more concrete implementation of the area's development plans and infrastructure investments. This increase amounted to US\$57.82 million of which US\$26.09 million represent foreign currency gains due to the strengthening of the Swiss franc against the US dollar. The total market value of land in field locations increased by US\$3.23 million compared to 2019.
37. The total value of buildings increased by US\$36.04 million. This increase was mainly attributable to an increase in the market value of the headquarters building of US\$35.36 million, of which US\$26.63 million represent foreign currency gains due to the strengthening of the Swiss franc. The total market value of buildings in other locations increased by US\$1.46 million as compared to 2019. The overall increase is reduced by the sale of the ILO property in Brussels, Belgium with a carrying amount of US\$0.77 million.
38. The remainder of this category is made up of leasehold improvements, mainly at the Turin Centre, and capitalized office fixtures and equipment assets. While access to certain locations to perform physical inventory and asset verification counts was limited by COVID-19 restrictions imposed by local authorities or for the safety of staff, alternative verification methods were applied in such cases and there was no impact on reliability of the values presented in the financial statements.

Voluntary contributions receivable

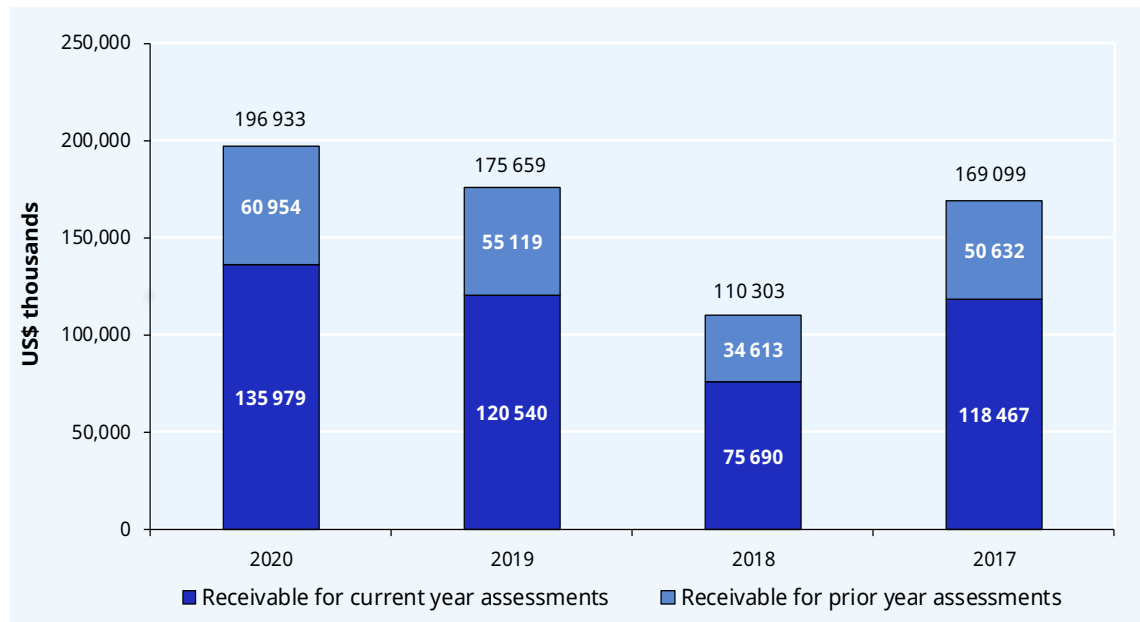
39. Voluntary contributions receivable from donors are amounts supported by enforceable agreements that are subject to specific performance conditions; accordingly these amounts are also treated as a deferred revenue liability until such performance conditions have been met.
40. Despite marking the start of the COVID-19 pandemic, 2020 also illustrated the strength of ILO's partnerships. The commitment of funding partners to supporting the ILO's response to the pandemic was a defining feature of 2020. This took the form of new contributions supporting new activities directly related to the response. The Office was able to repurpose project objectives in order to respond to the emerging needs of constituents, and to mobilize specific voluntary contributions to tackle new challenges. This resulted in an increase of the voluntary contributions receivable by US\$41.28 million or 20 per cent to US\$536.45 million, net of future year discounting effects. There have been no impairments of voluntary contribution receivables during this period.

Assessed contributions receivable

41. There has been no material impact on the collection of assessed contribution as a direct result of the COVID-19 pandemic. In 2020 the level of gross assessed contributions receivable increased by US\$21.27 million to US\$196.93 million, attributable for the most part to the increase in the value of the Swiss franc against the US dollar, while the receivable balance in Swiss francs increased by only CHF2.62 million.
42. In Swiss francs, the amount of assessed contributions collected in 2020 is in the midrange compared to the previous biennia, with normal yearly variations due to different timing of collections from the larger contributors.

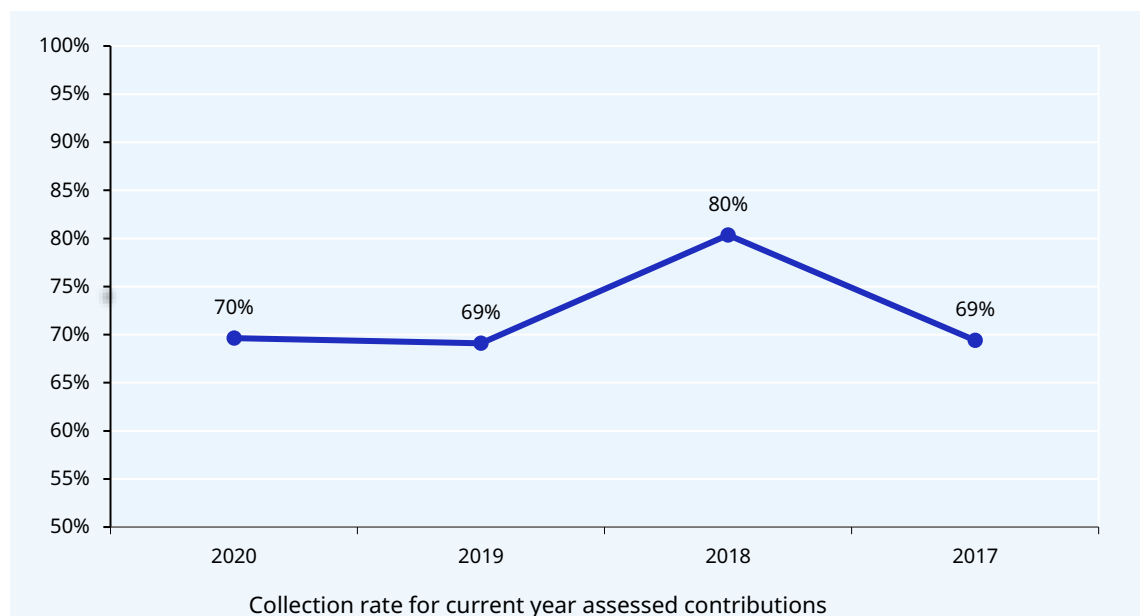
43. Figure 7 below summarizes the gross assessed contributions receivable balances and their components at the end of each of the last four years, before provision and discounting of long-term financial arrangements:

► **Figure 7. Gross assessed contributions receivable**



44. The trend in the collection rate for current year assessed contributions for the same years is reflected in figure 8 below:

► **Figure 8. Assessed contributions collection rate (in the year of assessment)**



45. The collection rate of 70 per cent for 2020 is at the same level as in 2019 and 2017. While the receivable for current year assessments increased in 2020, it should be noted that CHF47.87 million of contributions were received during the first three months of 2021, of which CHF43.81 million related to 2020 assessments (11 per cent of the 2020 assessed contributions).

46. There was no additional impact related to the COVID-19 pandemic noted on the provision in respect of the amount due from Member States that had lost the right to vote at 31 December 2020 or amounts due by States for prior periods of membership in the ILO. The overall provision increased by US\$6.30 million, with US\$4.02 million due to the increase in the Swiss franc provision balance and US\$2.28 million due to currency fluctuation. More detailed information on assessed contributions can be found in note 31 and note 32 to the financial statements.

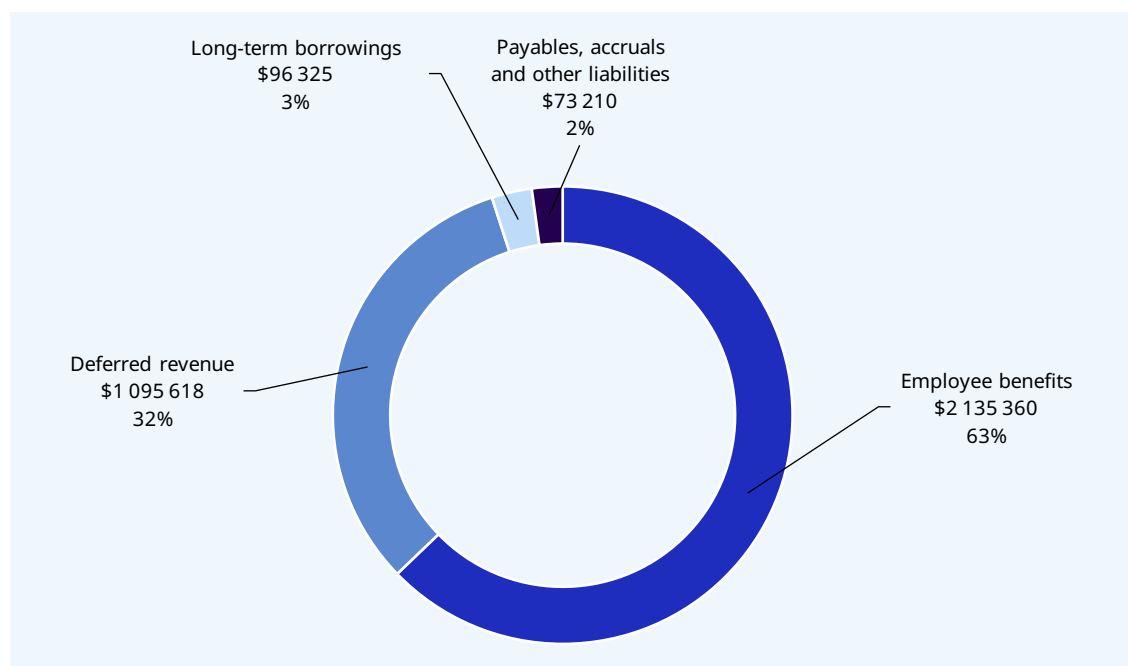
Other assets and receivables

47. There was a significant increase in other receivables related to the sale of investment property in 2020. The proceeds of the sale (CHF150.00 million)² were partly received in 2020 (CHF80.00 million), with the balance to be received in instalments over the next three years. This receivable is guaranteed by a bank guarantee of payment in favour of the ILO.
48. Following the movement from print to electronic publications, steadily declining inventory levels, and rapid obsolescence, the Organization opted to derecognize inventory of publications starting in 2020, charging the remaining balance to the consolidated statement of financial performance and resulting in a reduction in the other assets category.

Liabilities

49. Liabilities as at 31 December 2020 totalled US\$3,400.51 million, an increase of US\$346.72 million over the total at 31 December 2019 of US\$3,053.79 million, and were categorized as follows:

► **Figure 9. Liabilities (US\$ thousands)**

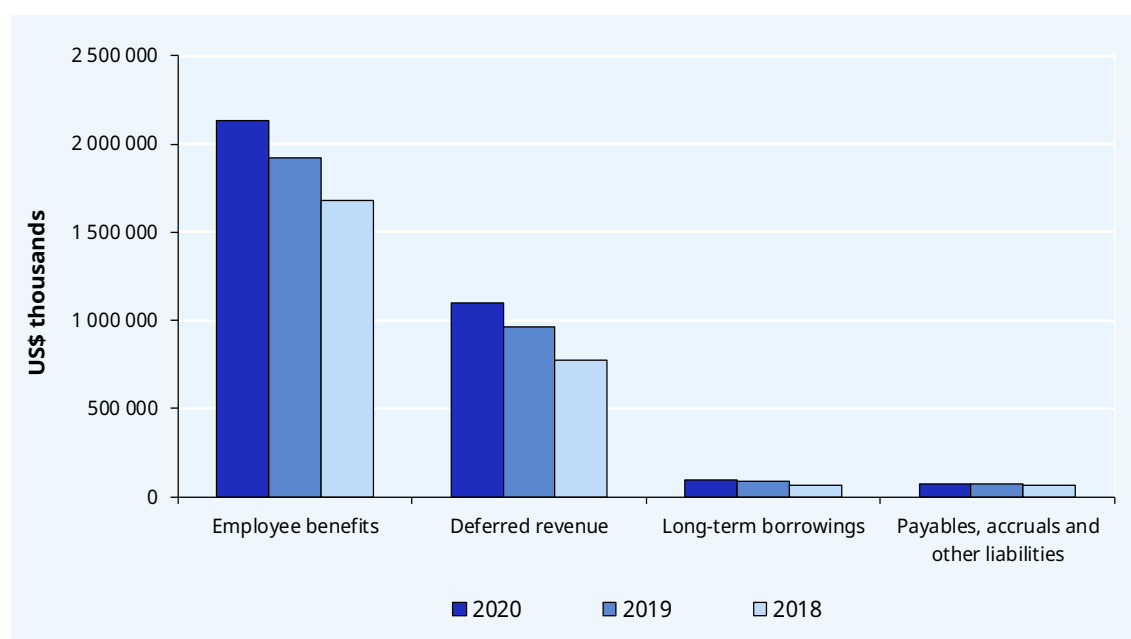


² See GB.340/PFA/3.

50. The most significant liabilities of the Organization were the future employee benefits accrued by staff members and retirees, representing 63 per cent of the total liabilities as at 31 December 2020. 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 are made up of long-term borrowings and various operational payable and accrual amounts.

51. Figure 10 below provides a three-year comparison by liability category:

► **Figure 10. Liabilities, three-year comparison**



Employee benefits

After-service health insurance (ASHI)

52. The ASHI liability at US\$2,046.14 million, accounts for 96 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.
53. The ASHI liability increased by US\$203.83 million in 2020 as a result of net actuarial losses of US\$133.94 million combined with the annual current service and interest costs as detailed below:

Actuarial (gains)/losses (US\$ thousands)	2020	2019
(Gain)/loss due to experience	(29 702)	(6 762)
Financial assumption changes:		
(Gain)/loss due to change in discount rate	130 663	279 373
(Gain)/loss due to change in future increase in medical claims	28 444	(32 994)
(Gain)/loss due to change in future increase in administration cost	(251)	(218)
Total (gains)/losses due to financial assumption changes	158 856	246 161
Demographic assumption changes:		
(Gain)/loss due to change in future retirees and spouses electing coverage	–	(56 416)
(Gain)/loss due to change in medical claims cost per member	–	(13 874)
(Gain)/loss due to change UNJSPF assumptions for mortality and retirement rates	4 782	10 226
Total (gains)/losses due to demographic assumption changes	4 782	(60 064)
Total actuarial (gains)/losses recognized in net assets	133 936	179 335
Current service cost	78 861	69 114
Interest cost	15 804	25 391
Net benefits paid	(24 771)	(25 475)
Net ASHI expense recognized in the statement of financial performance	69 894	69 030
Total (decrease)/increase in ASHI liability	203 830	248 365

54. The most significant financial assumption change in 2020 was the reduction in discount rates, indirectly related to responses by Central banks to the COVID-19 pandemic. 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.
55. Other assumptions were updated during the year following the methodology agreed upon through the harmonized approach among UN system organizations, these included revisions to mortality and retirement rates, and inflationary assumptions that affect projected medical claims and administration costs.
56. 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.

57. The ASHI liability is considered as unfunded. However, an amount of US\$71.20 million is available in a SHIF Guarantee Fund to cover future short-term liabilities of SHIF. In addition an amount of US\$10.67 million has been accumulated to partially fund the ASHI liability in respect of the staff of development cooperation projects.
58. 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

59. The valuation of repatriation and end-of-service liabilities is influenced by many of the same actuarial assumptions that contributed to the increase in the ASHI liability, the most significant being discount rates and inflationary assumptions. These increases were offset by actuarial gains primarily 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.
60. In accordance with IPSAS 39 – Employee Benefits, no plan assets have been offset against the liability, however, an amount of US\$59.05 million has been accumulated by the ILO in its Terminal Benefits Fund (US\$51.81 million as at 31 December 2019) to fund future benefits.
61. 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 €10.36 million at the end of the year, it is funded by the Turin Centre currently at a level of €2.3 million.

Accumulated leave liabilities

62. Annual leave and home leave liabilities increased by US\$8.00 million over the prior year, mainly due to the impact of staff not taking their planned leave entitlements because of the pandemic and related travel limitations. As staff regulations impose a limitation on the carry-forward of annual leave balances, it is assumed that the increase is a short-term effect which will be resolved as travel restrictions are eventually lifted.

Deferred revenue

63. 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 increase of US\$129.5 million in deferred revenue is attributable for the most part to additional funds held on behalf of donors for Development Cooperation projects (due to donors) which grew by US\$112.70 million as a result of higher overall funding levels. The increase in the voluntary contribution receivable, which is offset by a liability until performance obligations are met, explains the remaining rise in this revenue deferral. The details on deferred revenue are provided in note 15 to the financial statements.

Long-term borrowings

64. Borrowings consist of two loans in Swiss francs made to the ILO from the Foundation for Buildings for International Organizations (FIPOI) for the construction and the subsequent renovation of the ILO's headquarters building. The increase in borrowings in 2020 of US\$7.45 million are a result of the final loan instalments received for the headquarters renovation during the year of US\$4.42 million augmented by a currency revaluation of US\$9.31 million, but offset by US\$6.28 million in combined annual repayments of both loans and fair value discount amortization.

Operational activities

Regular budget

65. The International Labour Conference, at its 108th Session (June 2019), approved an expenditure budget for the 2020–21 financial period amounting to US\$790.64 million and an income budget for the period of the same amount, which at the budget rate of exchange for the period of CHF1.00 to the US dollar, resulted in total assessed contributions of CHF790.64 million.
66. The overall budgetary results for the first 12 months of the 2020–21 financial period are summarized in statement V-A with the details of contributions paid by Member States shown in note 32 to the financial statements.
67. The table below shows the expenditure and budget utilization percentages for the current and previous years:

► Variance analysis by strategic outcome for 2018–20 (in US\$ thousands)

	2020 Budget *	2020 Actual	2020 Delivery	2019 Budget *	2019 Actual	2019 Delivery	2018 Budget *	2018 Actual	2018 Delivery
Part I – Ordinary budget									
A. Policymaking organs	25 138	11 380	45%	26 192	26 423	101%	26 192	25 546	98%
B. Policy outcomes	313 109	279 535	89%	312 956	329 965	105%	312 955	291 485	93%
C. Management services	30 821	28 707	93%	31 242	32 851	105%	31 242	29 477	94%
D. Other budgetary provisions	21 205	21 456	101%	22 729	21 600	95%	22 729	22 470	99%
Adjustment for staff turnover	(3 154)	–	0%	(3 210)	–	0%	(3 210)	–	0%
Total Part I	387 119	341 078	88%	389 909	410 839	100%	389 908	368 978	95%
Part II Unforeseen expenditure	438	–	0%	437	868	199%	438	–	0%
Part IV – Institutional investments and extraordinary items	7 763	8 709	112%	1 714	–	0%	1 714	3 428	200%
Total Parts I, II and IV	395 320	349 787	88%	392 060	411 707	105%	392 060	372 406	95%

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

68. The results for the first year of the 2020–21 biennium should be compared with those of 2018, as the ILO normally utilizes less than one half of the biennial budget as activities are often planned and programmed in the first year for delivery across the whole biennium. The lower delivery rate of 88 per cent in 2020 compared to 95 per cent in 2018 reflects the

direct budgetary impact from the constraints of the pandemic. This significantly impacted policy-making organs under Part I of the budget as most costs related to in situ attendance of official meetings were avoided, and to a lesser extent policy outcomes and management services as the Office adapted its programmes and responded to the pandemic constraints with new working methods and innovative delivery mechanisms. Further details regarding the implications of COVID-19 for delivery of the Programme and Budget for 2020–21 for the first year of the biennium was presented to the Governing Body (GB.341/PFA/2).

69. Statement V-A shows an excess of income over expenditure for the period at the budgetary rate of exchange amounting to US\$45.53 million. Following revaluations, adjustments in respect of arrears of contributions received and reimbursement of the Working Capital Fund and internal borrowings, the deficit for budgetary purposes at the end of the year was US\$35.78 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 2021.
70. The differences between the net results determined on an IPSAS (full accrual) basis and those determined in accordance with the Financial Regulations are summarized in the following table and explained in more detail in note 24 to the financial statements and in the appendix.

(US\$ thousands)	Regular budget	CINTERFOR	Turin Centre	Voluntary contribution activities	Subsidiary funds	Total
Net result per budgetary basis (Statement V)	(35 782)	101	2 382	–	–	(33 299)
IPSAS adjustments	101 623	(75)	(1 104)	–	–	100 444
Subsidiary funds	–	–	–	5 412	(16 243)	(10 831)
Net result per IPSAS basis	65 841	26	1 278	5 412	(16 243)	56 314

Turin centre

71. The Turin Centre faced many similar challenges during 2020 as a result of the COVID-19 pandemic, effectively ending face-to-face training activities and moving the majority of staff into remote work as a result of lockdowns issued by the Italian authorities.
72. To mitigate the impact on the Centre's financial position, measures were taken to transition courses to distance-learning modalities combined with a global outreach campaign to promote their activities to reach a wider external audience.
73. An update of digital learning solutions was accelerated, resource mobilization efforts were increased, and the Centre expanded its non-training services while reducing discretionary expenditures, additional hiring and use of consultant services.
74. With these mitigation actions in place, the Centre saw a significant increase in outreach for its training activities as well as the demand for its non-training services. The Centre also identified additional savings in many of its expenditure categories by the end of the year. As a result, the Turin Centre was able to yield positive results as summarized in statement V-C.

Voluntary contribution activities

75. Voluntary contribution activities include development cooperation projects and Regular Budget Supplementary Account (RBSA) projects, as well as gifts and grants. Expenditure recognized during 2020 on extrabudgetary development cooperation activities totalled US\$283.30 million (US\$279.99 million in 2019). In accordance with IPSAS, revenue is recognized and matched by the Office when earned through project delivery; hence the extrabudgetary development cooperation delivery rate is consistently 100 per cent in financial terms. The results show that the actual delivery measured by expenditure was higher by 1.2 per cent in 2020 as compared to 2019.
76. The global effects of the pandemic did have a significant impact on the Organization's voluntary contribution activities in 2020. Development cooperation projects played a key role in enabling the continuation of ILO activities in the field and the preparation of global products related to COVID-19. Through constructive dialogue with its development partners, the Office was able to repurpose project objectives in order to respond to the emerging needs of constituents, and mobilize specific voluntary contributions to tackle new challenges, for example in the areas of fundamental principles and rights at work, social protection and occupational safety and health.
77. Refunds to donors increased from US\$6.6 million in 2019 to US\$7.0 million in 2020. It cannot be determined how much of these refunds may be attributable to the pandemic as refunds to donors occur as part of regular operations and sometimes on a cyclical basis – for example, some multi-year funding cycles came to an end in 2020 and refunds are processed to donors after which these funds are then carried over to the next programme funding cycle.
78. As the pandemic is ongoing after the 2020 accounts had been closed, the monetary impact on the Organization's future revenue and expenses or the longer-term impact on its future voluntary contributions cannot be reliably estimated at this time. Voluntary contributions in 2020 included funding earmarked for COVID-19 related activities, which was complemented by the reprogramming of existing funds toward COVID-19 relief activities. ILO will carefully monitor approvals in 2021 to evaluate whether the economic disruption resulting from the pandemic is adversely affecting future voluntary contributions.

Subsidiary funds

79. The ILO Staff Health Insurance Fund (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.
80. In 2020 the SHIF had a technical surplus with contributions exceeding benefit payments by US\$4.62 million (US\$1.79 million in 2019), and a net operating surplus of US\$2.29 million (US\$1.06 million in 2019) after accounting for increased unsettled claims at year-end, a provision for advances, foreign exchange gains and losses, and sundry expenses. Net investment income and currency revaluation of US\$7.10 million (US\$4.47 million in 2019) resulted in an overall surplus for the SHIF of US\$9.40 million in 2020 (US\$5.53 million in 2019).

81. Staff members and retirees made fewer healthcare cost recovery claims in 2020 than was typical in recent years, likely a short-term impact related to COVID-19 confinements and restrictions. Management expects to see a reversal of this trend in 2021.
82. 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 2020

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 2020, and considers any relevant events up to the date of the approval of the Organization's consolidated 2020 financial statements.

The ILO's operating environment

4. The ILO operates in a global environment with a physical presence in over 140 locations. The diverse operating locations, the unique tripartite structure, and the engagement with multiple funding and delivery partners all present the ILO with opportunities and potential risks. In 2020, the global pandemic of COVID-19 devastated the world of work. In addition to the threat to public health and lives, it has also caused a human, economic and social crisis, which has an ongoing direct and significant impact on jobs, businesses and livelihoods. The ILO was called on to quickly shift gear and adapt work plans, outcomes and strategies in response to the changing needs of the tripartite constituents.
5. The ILO headquarters in Geneva went into lockdown on 16 March 2020, followed rapidly by all external offices, with a move to remote teleworking. Significant efforts were made to ensure a safe and gradual return to office in the middle of the year, however remote working arrangements were again introduced when the situation worsened in the autumn. Throughout 2020, the pandemic brought unprecedented challenges for the Office to ensure that the physical safety and health of ILO officials, the security of ILO property, as well as the successful delivery of its outcomes and targets is maintained.

6. In November 2020 the Governing Body (held virtually), approved the ILO's Strategic Plan for 2022–25 with an overarching objective to apply the provisions of the Centenary Declaration for a human-centred recovery from the impact of the COVID-19 pandemic. To achieve this objective, it requires the ILO to continue to improve its organizational performance in respect of governance, knowledge management, capacity development and outreach, and resource use.
7. Within this overall framework, 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 level of exposure to all risks relating to their functions and activities, and to maintain a high level of internal control while adapting to the changes in working methods brought about by the pandemic.

The ILO's risk management and internal control frameworks

8. The Office undertook a review of its Enterprise Risk Management Framework in 2020. As a result, the framework has been updated with the following key elements:
 - Five principles for risk management operations, namely: (i) decision-focused; (ii) embedded; (iii) proportionality; (iv) comprehensive; and (v) dynamic.
 - A six-stage risk management process, comprising of (i) planning (defining the need for and setting the scope of the risk assessment); (ii) identifying risks; (iii) evaluating risks; (iv) responding to risks; (v) monitoring risks; and (vi) reporting risks.
 - Two levels of risk management within the ILO, including strategic risks and operational risks, with a top-down, bottom-up model for the flow of risk information between the two levels.
 - Leadership and direction on risk management provided by the Director-General and the Senior Management Team (SMT), with the Treasurer and Financial Comptroller as the policy owner providing recommendations to the SMT.
 - Consideration of the ILO's risk appetite through the evaluations of risk severity, derived by combining scores for impact and likelihood.
 - Embedding risk management in the ILO's processes and building organizational capacity to manage risk efficiently.
9. The key elements of the ILO's Internal Control Framework include:
 - 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 Defense" for internal controls, in line with the Reference Model adopted by the United Nations 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**, signed by my deputy directors-general, regional directors, departmental directors at headquarters, external office directors and selected managers of major development cooperation programmes and projects, providing 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 2020, resulting in the addition and removal of a number of questions to ensure the continued relevance and applicability.
 - **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 internal control matters, including those contained in the reports of the Independent Oversight Advisory Committee (IOAC).

Significant internal control matters arising during the year 2020

11. The internal letters of representation were received from 250 directors and major programme/project managers. They were analysed and used as one of the key sources for providing assurance on the effective implementation of ILO's internal controls during the year. Despite the difficulties of remote operations, no significant control weaknesses were noted by the managers in their disclosures and no new areas were identified by them as requiring further improvements.
12. I have also reviewed 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 2020. I noted that a number of recommendations made by these bodies were specifically in relation to the issues brought about by the pandemic, while others were derived from the usual oversight work conducted during the period concerned. I have deemed it necessary to report these matters in this statement to ensure that policies and procedures remain fit-for-purpose and their operational application continues to improve.
- **The need for institutional and practical arrangements to enable efficient and effective digital governance.** The pandemic has had an impact on the functioning of ILO's governance organs and resulted, most significantly, in the deferral of the 109th Session of the International Labour Conference and the decision not to hold the 338th, 338th bis and 339th Sessions of the Governing Body. While these decisions were made under exceptional circumstances, concerns were expressed, for example by the IOAC, over the need for timely and effective governance. Prior to the 340th Session of the Governing Body, the Office undertook a consultative approach with members of the Governing Body to review the legal, institutional, and practical aspects related to conducting virtual sessions and agreed on the detailed arrangements covering accreditation, attendance, agenda programming, conduct of debates, decision-making and other processes. As a result, both the 340th and 341st Sessions of the Governing

Body were held successfully, and the agenda items deferred from earlier sessions were dealt with through a combined approach of decision by correspondence and decision at plenary.

- **The need for swift technology adaptation to support remote working and strengthen business process control.** The lockdown measures taken in response to the pandemic brought about changes to the working methods employed in the ILO, namely the teleworking operations for the majority of officials, and the use of virtual meetings to replace physical travel. This required swift actions to be taken to upgrade the information technology capacity, both in terms of hardware and software, and to adapt policies and processes to ensure that control measures remain effective. In this connection, a coordinated procurement process was initiated immediately after the initial lockdown to ensure the provision of laptops and other IT equipment to staff working from home, including in particular for those having responsibilities for processing transactions in the Integrated Resource Information System (IRIS). Several virtual communication platforms were quickly deployed to staff allowing for continued effective communications, both internally and with constituents. The Office standardized its internal communications platform to Microsoft Teams in line with all other UN agencies. In the first half of 2021, a Multi Factor Authentication (MFA) process will be implemented Office-wide to provide for a more secure working environment and robust data protection.
- **The need for a strengthened ethics function to promote increased awareness on ethical conduct and the prevention of fraud and misconduct.** 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. Both the External Auditor and the IOAC have made recommendations to enhance the ethics function by increasing its visibility, developing a strategic and structured training package on ethical conduct of staff, providing easy access of potential whistle blowers to the communication of information, and putting more emphasis on the preventive measures for fraud and misconduct. While work is already under way to address these recommendations, I have also included a full-time Ethics Officer in my Programme and Budget proposals for the 2022–23 biennium to further strengthen this function. The outcomes of the current review by the Joint Inspection Unit (JIU) on the ethics function will be taken into consideration as applicable with a view to ensuring the highest standards of conduct among ILO staff.

Internal control matters carried forward from previous years

13. In 2020, the Office continued to implement measures to address the internal control matters reported in my statements of the past years. Based on the feedbacks from the disclosures submitted by directors and other managers in internal letters of representation, and by referencing to the relevant audit, oversight and evaluation reports, I have assessed these areas anew 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

- **Due diligence in the delegated procurement process and oversight on the performances of contracted parties to be further strengthened (2019).** As reported in my 2019 statement, external collaboration contracts, implementation agreements, and grant agreements are types of contracts not subject to commercial procurement procedures. They require managers to consider the specific applicability criteria and follow specially established procedures. In 2020, internal and external audit, as well as investigation, reports continued to call for more transparency and diligence in their selection, closer monitoring and verification of their work deliverables, enhanced oversight on their performance, and clearer processes for the contract termination in case of poor performance. It is my intention to undertake a review of the existing policies and procedures related to these types of contracts, taking into account the outcomes of the internal audit on external collaboration contracts and the JIU review on implementation agreements, both of which are currently ongoing. A further clarification on the use of grant agreements versus implementation agreements will also be made in this review process.
- **Efficiency in the management and internal coordination of development cooperation projects to be reinforced (2019).** The External Auditor, in his interim audit of 2020, reviewed the ILO's programme/project implementation and delivery amidst the pandemic. It was observed that certain programme implementation and monitoring activities needed to be strengthened, and the overall delivery rate needed to be improved. Going forward, the Office will ensure closer coordination between management units at headquarters, the regional offices, the project owners, and project managers over the different phases of project delivery through the use of the Development Cooperation Management Support application. In order to share best practices and address lessons learned, virtual communication platforms such as the Development Cooperation Community of Practice (DCCoP) will be promoted to foster a knowledge management culture.
- **Workforce planning and skills development (2018).** In its report to the Governing Body in March 2021, the IOAC discussed about the progress made on the Office-wide skills-mapping exercise, which was intended to identify and evaluate the technical and soft skills needed by the ILO including how to fill any gaps. The Committee encouraged management to ensure that the skills-mapping exercise should produce an end result that could be understood and implemented in developing the appropriate human resources. As requested by the Governing Body, work will continue in this area with particular consideration on the review of skills relevant to providing services to the three groups of constituents for the future of work, and creating opportunities for youth and for young professionals.
- **Performance management compliance (2017).** In the 2020 disclosures contained in the internal letters of representation, 78.8 per cent of all managers reported a full compliance with the performance management cycles, a further improvement compared to that of 2019, showing a steady positive trend over the years. Nevertheless, managers continued to report a certain level of challenges, citing difficulties faced with teleworking and virtual communication. In this connection, the Office will provide one-on-one support to individuals concerned through performance management coaching and peer networks. Specific guidelines for handling complex situations arising from COVID-19 are also being

finalized. The online versions of “Managing My Performance Conversation” training module have been designed and will be delivered in 2021 to support managers and staff.

Matters no longer deemed significant risk of internal control

- **Adequate information technology infrastructure and coverage of IRIS at project locations to be ensured (2019).** In order to ensure the inclusion of project locations in the centralized information technology framework and their secure access to IRIS, the Office issued a new policy effective from 1 January 2021. All development cooperation projects are now required to budget the costs for accessing the ILO’s infrastructure. This will ensure the use of modern secure hardware and up-to-date software when accessing ILO systems.
- **Business Continuity Management strategy and tools (2018).** At the start of the pandemic in the first quarter of 2020, the ILO rapidly reacted to the fast-evolving situation and disseminated a full set of comprehensive tools and instructions in the area of programme/project management, financial operations, human resources, travel, and meeting policies. This ensured the smooth functioning of the Office while keeping effective controls in place. In the context of the phased approach for the return to office, instructions were developed covering medical declarations and clearance, occupational safety and health measures in premises; safe access and daily health checks and so on. Both sets of tools and instructions have been subject to real-time testing and updating for future reference.
- **Advance travel planning (2018).** As noted in past years, the common causes of deviations from advance travel planning were mostly related to urgent operational needs and specific security or visa requirements. In the 2020 disclosures made by directors and managers in internal letters of representation, this was no longer highlighted as an issue, due to the fact that mission travel was almost entirely halted by the lockdowns and travel restrictions as a result of the pandemic and virtual means were used for meetings, consultations and capacity development activities. Going forward, it is expected that the experience gained from the changes in working methods, for example the use of virtual meetings, will help to guide the needs assessment for physical missions. The overall compliance for advance travel planning will continue to be monitored.

Conclusion

14. 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.

- 15.** 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 2020.

(Signed) Guy Ryder
Director-General

Geneva, 19 April 2021

► 3. Approval of the consolidated financial statements for the year ended 31 December 2020

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
Geneva, 31 March 2021

(Signed) Guy Ryder
Director-General
Geneva, 31 March 2021

▶ 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 2020, 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 2020, and their financial performance, changes in net assets, cash flow, and comparison of budget and actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the **ILO financial report and audited consolidated financial statements for the year ended 31 December 2020 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 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, 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's consolidated financial statements to the Governing Body.

(Signed) **Michael G. Aguinaldo**
Chairperson, Commission on Audit
Republic of the Philippines
External Auditor

Quezon City, Philippines
20 April 2021

► 5. Consolidated financial statements for the year ended 31 December 2020

International Labour Organization

Statement I

► Consolidated statement of financial position as at 31 December 2020 (US\$ thousands)

	Note	2020	2019
Assets			
Current assets			
Cash and cash equivalents	4	322 521	309 624
Contributions receivable – Assessed	5	161 695	144 988
Contributions receivable – Voluntary	6	282 946	247 415
Derivative assets	7	–	798
Investments	8	564 275	340 000
Other receivables	9	35 988	8 919
Inventories	10	–	4 446
Other current assets	11	26 589	30 494
		<u>1 394 014</u>	<u>1 086 684</u>
Non-current assets			
Contributions receivable – Assessed	5	6 396	6 979
Contributions receivable – Voluntary	6	253 504	247 760
Investments	8	287 244	240 920
Other receivables	9	50 963	–
Property and equipment	12	647 690	550 367
Investment property	13	–	149 108
Intangible assets	14	2 898	2 363
		<u>1 248 695</u>	<u>1 197 497</u>
Total assets		<u>2 642 709</u>	<u>2 284 181</u>
Liabilities			
Current liabilities			
Payables and accruals		37 116	47 762
Deferred revenue	15	842 396	718 538
Employee benefits	16	63 193	56 688
Current portion of long-term borrowings	17	6 835	6 053
Due to Member States	18	14 272	2 505
Other current liabilities	19	6 044	6 255
Derivative liabilities	7	12 477	1 424
		<u>982 333</u>	<u>839 225</u>
Non-current liabilities			
Deferred revenue	15	253 222	247 605
Employee benefits	16	2 072 167	1 867 179
Long-term borrowings	17	89 490	82 822
Derivative liabilities	7	–	1 120
Due to Member States	18	3 301	15 839
		<u>2 418 180</u>	<u>2 214 565</u>
Total liabilities		<u>3 400 513</u>	<u>3 053 790</u>
Net assets			
Reserves	20	221 583	151 208
Accumulated balances	20	(979 387)	(920 817)
Total net assets		<u>(757 804)</u>	<u>(769 609)</u>

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

International Labour Organization

Statement II

► Consolidated statement of financial performance for the year ended 31 December 2020
(US\$ thousands)

	Note	2020	2019
Revenue			
Assessed contributions	26, 31	399 158	385 772
Voluntary contributions	26	303 191	294 531
ITC training services	26	10 861	18 662
Staff/retiree benefit contributions		22 963	22 215
Sales and royalties		14 712	13 883
Investment income		12 819	20 735
Gain on sale of investment property	13	4 739	--
Other income		1 670	2 438
Total revenue		770 113	758 236
Expenses			
Salaries, employee benefits and other personnel costs	21	472 393	455 880
Travel	21	5 227	29 475
Subcontracts	21	142 591	144 085
General operating expenses	21	40 411	46 593
Supplies, materials and small equipment	21	10 876	10 988
Depreciation and amortization	21	10 531	9 916
Seminars, workshops and other training	21	14 177	43 831
Staff development	21	1 053	3 972
Health benefits	21	45 601	47 471
Contributions and grants in aid	21	17 400	11 427
Finance expenses	21	2 414	2 044
Other expenses	21	6 616	2 862
Total expenses		769 290	808 544
Foreign exchange gains/(losses)		55 491	16 178
Net surplus (deficit)		56 314	(34 130)

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 2020 (US\$ thousands)

	Note	Reserves	Accumulated balances	Total net assets
Balance as at 31 December 2018		213 489	(842 846)	(629 357)
Surplus (deficit) for the year 2019		14 185	(48 315)	(34 130)
Internal borrowing for financing of regular budget deficit		(76 415)	76 415	-
Transfer of liabilities due to Member States of period 2019		-	(15 079)	(15 079)
Change of derivatives		-	(12 772)	(12 772)
Change of revaluation surplus of land and buildings		-	99 690	99 690
Actuarial gain (loss) of employee benefit liabilities		-	(178 504)	(178 504)
Translation difference from consolidation of ITC		(51)	594	543
Total 2019 movement		(62 281)	(77 971)	(140 252)
Balance as at 31 December 2019	20	151 208	(920 817)	(769 609)
Surplus (deficit) for the year 2020		26 759	29 555	56 314
Repayment of internal borrowing for financing of regular budget deficit		79 176	(79 176)	-
New internal borrowing for financing of regular budget deficit		(35 782)	35 782	-
Change of derivatives		-	(12 429)	(12 429)
Change of revaluation surplus of land and buildings		-	97 318	97 318
Actuarial gain (loss) of employee benefit liabilities		-	(131 531)	(131 531)
Translation difference from consolidation of ITC		222	1 911	2 133
Total 2020 movement		70 375	(58 570)	11 805
Balance as at 31 December 2020	20	221 583	(979 387)	(757 804)

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 2020 (US\$ thousands)

	Note	2020	2019
Cash flows from operating activities			
Surplus (deficit) for the year		56 314	(34 130)
Non-cash movements:			
Depreciation and amortization		10 531	9 916
(Increase) decrease in contributions receivable – Assessed		(16 124)	(66 778)
(Increase) decrease in contributions receivable – Voluntary		(41 275)	(112 486)
(Increase) decrease in derivative instruments		(1 698)	(1 855)
(Increase) decrease in investment portfolios		(24 254)	(11 443)
(Increase) decrease in other receivables		(6 237)	658
(Increase) decrease in inventories		4 446	(332)
(Increase) decrease in other assets		3 905	(12 062)
Increase (decrease) in payables and accruals		(10 646)	9 194
Increase (decrease) in deferred revenue		129 475	194 224
Increase (decrease) in employee benefits		79 510	66 224
Increase (decrease) in due to Member States		(771)	4 288
Increase (decrease) in other liabilities		(211)	(5 580)
Increase (decrease) in borrowings		9 640	726
Gain on investment property and disposal of assets		(4 721)	(2 619)
Effect of exchange rates on cash and cash equivalents		(23 232)	(3 094)
Transfer to liabilities due to Member States from net assets		–	(15 079)
Net cash flows from operating activities		164 652	19 772
Cash flows from investing activities			
Proceeds from sale of investments	8	654 935	489 735
Purchase of investments	8	(901 280)	(555 000)
Additions of property and equipment	12	(10 160)	(27 458)
Proceeds from disposals of property and equipment		83 355	64
Additions of intangible assets	13	(1 064)	(1 087)
Net cash flows from investing activities		(174 214)	(93 746)
Cash flows from financing activities			
Repayment of borrowings	17	(6 604)	(3 706)
Proceeds from new borrowing	17	4 415	24 126
Net cash flows from financing activities		(2 189)	20 420
Effect of exchange rates on cash and cash equivalents		24 648	3 819
Net increase (decrease) in cash and cash equivalents		12 897	(49 735)
Cash and cash equivalents, beginning of period	4	309 624	359 359
Cash and cash equivalents, end of period	4	322 521	309 624

US\$4.6 million of interest received is included in the net cash flows from operating activities (2019 = US\$8.5 million).

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

International Labour Organization

Statement V-A

► **Statement of comparison of budget and actual amounts** ¹
Regular budget for the year ended 31 December 2020 (US\$ thousands)

	Original ² and final budget	Actual	Difference ³
Revenue			
Assessed contributions	395 320	395 320	–
Total revenue	395 320	395 320	–
Expenses			
Part I – Ordinary budget			
A. Policy-making organs	25 138	11 380	(13 758)
B. Policy outcomes	313 109	279 535	(33 574)
C. Management services	30 821	28 707	(2 114)
D. Other budgetary provisions	21 205	21 456	251
Adjustment for staff turnover ⁴	(3 154)	–	3 154
Total Part I	387 119	341 078	(46 041)
Part II – Unforeseen expenditure	438	–	(438)
Part IV – Institutional investments and extraordinary items	7 763	8 709	946
Total expenses (Parts I, II and IV)	395 320	349 787	(45 533)
Surplus at budgetary rate of exchange		45 533	
Revaluation of the budgetary surplus		6 033	
Surplus at UN operational rate of exchange ⁵		51 566	
Surplus resulting from the receipt of contributions in an amount higher than approved regular budget		(2 972)	
Reimbursement of 2018–19 deficit financing ⁶		(84 376)	
Net surplus (deficit) ⁷		(35 782)	

¹ Budget and actual information calculated at budgetary rate of exchange of US\$1 = CHF1.

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

³ Significant differences between budget and actual are explained in the accompanying financial report on the 2020 accounts.

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

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

⁶ As of 31 December 2019, in accordance with article 21.1(a) of the Financial Regulations, the deficit of CHF74.504 million, was covered by the Working Capital Fund and internal borrowings. In accordance with article 21.2(a) of the Financial Regulations, arrears of contributions received in 2020 were used to reimburse the Working Capital Fund and internal borrowings.

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

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

International Labour Organization

Statement V-B

► **Statement of comparison of budget and actual amounts**
Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR)
for the year ended 31 December 2020 (US\$ thousands)

	Original and final budget ¹	Actual	Difference
Accumulated balance, beginning	1 189	1 320	131
Revenue			
Contribution from ILO regular budget	1 231	1 231	–
Contribution from host country and other countries in the region	300	213	(87)
Other contributions	140	107	(33)
Sales of publications and services	15	–	(15)
Miscellaneous income	8	16	8
Total revenue	1 694	1 567	(127)
Expenses			
Expenditure	1 866	1 467	(399)
Total expenses	1 866	1 467	(399)
Net surplus (deficit)	(172)	100	272
Accumulated balance, ending	1 017	1 420	403

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 2020

	Original ¹ and final budget	Actual	Difference ²
	(in € thousands)		
Revenue			
Voluntary contributions	11 684	12 310	626
Earned income	28 654	20 690	(7 964)
Use of surplus	594	235	(359)
Total budget revenue	40 932	32 235	(7 697)
Expenditure			
Fixed expenditure	22 659	21 866	(793)
Variable expenditure	18 033	9 282	(8 751)
Contingency	300	–	(300)
Total expenditure	40 992	31 148	(9 844)
Budget surplus ³	(60)	2 087	2 147
	(in US\$ thousands)		
Net budget surplus ⁴	(68)	2 382	2 450

¹ Original budget represents 50 per cent of approved budget for voluntary contributions, other revenue, past surpluses, 49 per cent of the approved budget for fixed expenditures, variable budget and project staff variable expenditure as well as 48 per cent of the approved budget for training and publications revenue and total variable expenditure excluding project staff. It also includes 50 per cent of the approved budget for the contingency.

² Budget differences are explained in the accompanying financial report on the 2020 accounts.

³ As referred to in article 7(4) of the Financial Regulations of the ITC.

⁴ The revenue and expenditure of the ITC are consolidated using an average rate of US\$1 = €0.8763 for the reporting period (US\$1 = €0.8930 for 2019).

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 (ILC) which consists of representatives of all the Member States, and by the Governing Body elected by the ILC. The ILC of representatives of the Members is convened annually. Within the UN system, the ILO has a unique tripartite structure with workers and employers participating as equal partners with governments in the work of its governing organs.
4. The ILO's headquarters is in Geneva, Switzerland, and it maintains external offices in over 50 countries. In accordance with its headquarters agreement with the Government of Switzerland and the United Nations Convention on Privileges and Immunities for Specialized Agencies (1947 Convention) the Organization is exempt from most taxes and customs duties imposed by its Member States.
5. The financial statements consolidate all of the operations under the direct authority of the Director-General including the regular budget, reserves, 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 Centre is headquartered in Turin, Italy. The Centre provides training and related services to UN agencies, governments and non-governmental organizations designed to develop human resources and improve institutional capabilities. The Centre is principally financed from contributions from the ILO regular budget and development cooperation projects, from the Government of Italy and from charges for training services provided. The Centre produces separate financial statements at the same reporting date as the ILO.

Note 2 – Accounting policies

Basis of preparation and presentation

7. The consolidated financial statements of the ILO have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and comply with the ILO Financial Regulations.
8. The consolidated financial statements are prepared on an accrual basis.

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 ILC 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.

Investment property

35. Investment properties are initially recognized at cost and subsequently measured at fair value based upon market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment properties are recognized in the consolidated statement of financial performance in the period in which they arise.
36. Investment properties are derecognized either on disposal of or when they are permanently withdrawn from use and no future economic benefit or service potential is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of financial performance in the period of derecognition.
37. Transfers are made to (or from) investment property only when there is a change in use. If owner-occupied property becomes an investment property, such property is accounted for in accordance with the policy stated under property and equipment up to the date of change in use.

Leases

38. 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

39. 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.
40. 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 five years and is adjusted on an annual basis.

Property and equipment

41. 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.
42. The value of heritage assets, including donated works of art, is not recognized as an asset on the consolidated statement of financial position.
43. 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.
44. 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

45. Provisions are recognized for contingent liabilities when the ILO has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle that obligation, and the amount can be reliably estimated. The amount of the provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.
46. 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

47. Revenues and receivables from non-exchange transactions are recognized as follows:
- Assessed contributions:
 - Prior to the beginning of each financial period the ILO assesses each Member State in accordance with article 13 of the ILO Constitution for its share of the regular budget.

Contributions are calculated and payable in Swiss francs equal to the total amount of the Organization's regular budget for the biennial financial period, payable one half at the beginning of each year of the biennium. Revenue from assessed contributions is recognized as one half of the total on 1 January of each year of the biennium.

- Assessed contributions adopted by the ILC but not recognized as revenue at the reporting date are disclosed as contingent assets since 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 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 Centre's operations. These agreements are considered non-exchange transactions since both parties to such transactions do not receive approximately equal direct benefit. Training activities that include restrictions on their use are recognized as revenue upon signing of a binding agreement. Agreements for which the Centre has full control and that include conditions, including the implicit or explicit obligation to return funds if such conditions are not met, are recognized as assets and liabilities (deferred revenue) upon signature of a binding agreement. The liability is reduced and revenue is recognized based on the proportion that expenses incurred bear to the estimated total expenses of the training activity.
 - Probable inflows of resources from voluntary contributions and training activities that have not been recognized as assets are disclosed as a contingent asset.
- Contributions in kind:
 - Goods in-kind are recognized at fair value at the date of receipt. In-kind contributions of services are not recognized.
 - Right to use of land, office space and other facilities received from Member States are disclosed in the notes to the consolidated financial statements.
- Programme support income:
 - Voluntary contributions accepted by the ILO include a charge for services provided by the ILO covering costs of administrative and operational support services, generally calculated as a percentage of total direct project costs. Revenue from programme support services is considered a non-exchange transaction and is recognized when earned through performance.

Revenue from exchange transactions

48. 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

49. The International Public Sector Accounting Standards Board (IPSASB) has published the following new and amended standards that were originally to be effective 1 January 2022. The IPSASB has subsequently delayed the implementation dates of these standards and amendments, which are now effective 1 January 2023:
- 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. This standard will have no impact on 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 instruments, including impairment, derecognition and general hedge accounting. The ILO does not foresee a significant impact on the consolidated financial statements resulting from this standard.
 - IPSAS 36 – Investments in Associates and Joint Ventures was consequentially amended, through the issuance of IPSAS 41 – Financial Instruments. These amendments will have no impact on the consolidated financial statements.
 - 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. The amendments are not anticipated to have any effect on the consolidated financial statements.

Note 4 – Cash and cash equivalents

50. 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	2020 total	2019 total
Cash	98 692	149 971	13 480	6 799	268 942	209 399
Cash equivalents	44 081	–	9 498	–	53 579	100 225
Total cash and cash equivalents	142 773	149 971	22 978	6 799	322 521	309 624

51. Cash and cash equivalents balances include US\$4.61 million in interest revenue, of which US\$4.49 million was earned through short-term deposits (note 8).

Note 5 – Contributions receivable – Assessed contributions

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

(US\$ thousands)	2020	2019
Assessed contribution receivable (note 31,32)	196 933	175 659
Less: Advance payments received from Member States with financial arrangement (note 32)	(252)	(1 285)
Less: Amortization of long-term financial arrangements	(446)	(561)
Less: Provision for doubtful collection of contributions	(28 144)	(21 846)
Total net receivable - Assessed contributions	168 091	151 967
■ Contributions receivables - Assessed contributions - Current	161 695	144 988
■ Contributions receivables - Assessed contributions - Non-current	6 396	6 979

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

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

(US\$ thousands)	2020	2019
Less than 1 year	135 979	120 540
1–2 years	28 063	28 014
Over 2 years	32 639	25 820
Less provision for doubtful debts and amortization	(28 590)	(22 407)
Total net receivable	168 091	151 967

Note 6 – Contributions receivable – Voluntary contributions

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

(US\$ thousands)	2020	2019
Voluntary contributions receivable – Current		
Development cooperation projects (all with conditions)	272 391	238 116
ITC training services	10 555	9 299
Subtotal voluntary contributions receivable – Current	282 946	247 415
Voluntary contributions receivable – Non-current		
Development cooperation projects (all with conditions)	249 858	240 158
ITC training services	3 646	7 602
Subtotal voluntary contributions receivable – Non-current	253 504	247 760
Total voluntary contributions receivable	536 450	495 175

Note 7 – Derivative assets and liabilities

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

(US\$ thousands)	2020	2019
Derivative assets		
SHIF forward purchase agreement – Current	–	798
Total derivative assets	–	798
Derivative liabilities		
SHIF forward purchase agreement – Current	(8)	–
ILO regular budget forward purchase agreement – Current	(12 469)	(1 424)
ILO regular budget forward purchase agreement – Non-current	–	(1 120)
Total derivative liabilities	(12 477)	(2 544)
Total derivative net asset (liability) position	(12 477)	(1 746)

57. 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 three months	53 146
ILO regular budget forward purchase agreement	Within the next three months	45 876
ILO regular budget forward purchase agreement	Within the following 12 months	149 466

SHIF forward purchase agreement

58. The risk related to financial assets held on behalf of SHIF in currencies other than Swiss franc and US\$ (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 forward purchase agreement within the portfolio

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

ILO regular budget forward purchase agreement

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

61. 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)	2020	2019
Fair value as at 1 January	(2 544)	9 220
Derivatives exercised during the period and recognised in net asset	4 578	(3 415)
Derivatives exercised during the period and recognised in surplus (deficit)	(3 154)	(5 805)
Change in fair value of the spot element recognized in net assets	(17 007)	(9 358)
Change in fair value of the forward element recognized in surplus (deficit)	5 658	6 814
Total fair value as at 31 December	(12 469)	(2 544)

62. The cash flow hedges were highly effective in 2020. 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)	2020	2019
Opening balance as at 1 January (note 20)	(9 358)	3 415
Reclassification during the year to exchange gain (loss) and revaluation, net (effective hedge of the spot element – transactions realized during the period)	4 578	(3 415)
Net gain (loss) during the year recognized in net assets (effective hedge of the spot element – forecasted transactions)	(17 007)	(9 358)
Closing balance as at 31 December (note 20)	(21 787)	(9 358)

63. The amounts retained in net assets as at 31 December 2020 are expected to mature and affect the consolidated statement of financial performance in 2021.

Note 8 – Investments

64. 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.
65. 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.
66. The fair value and historic cost as at the reporting date are as follows:

(US\$ thousands)	2020		2019	
	Fair value	Cost	Fair value	Cost
Investments – Current				
ILO short-term deposit	564 275	564 275	340 000	340 000
Subtotal investment – Current	564 275	564 275	340 000	340 000

(US\$ thousands)	2020		2019	
	Fair value	Cost	Fair value	Cost
Investments – Non-current				
Cash within the portfolios	3 983	3 983	390	390
Fixed income				
Bonds	1 600	1 619	–	–
Floating rate notes	14 435	14 437	11 136	11 141
Money market	35 194	35 177	41 427	41 272
Total fixed income investments	51 229	51 233	52 563	52 413
Unit funds	232 032	216 560	187 967	176 168
Subtotal investment – Non-current	287 244	271 776	240 920	228 971
Total investment	851 519	836 051	580 920	568 971

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

(US\$ thousands)	2020	2019
Fair value at 1 January	580 920	504 212
Investment income	12 465	20 066
Investment income transferred to cash balances	(4 494)	(7 841)
Other gains and losses	16 283	(782)
New investment during the period	901 280	555 000
Disposal of investments during the period	(654 935)	(489 735)
Fair value at 31 December	851 519	580 920

Note 9 – Other receivables

68. Other receivables are as follows:

(US\$ thousands)	2020	2019
Amounts receivable from land sale	79 275	
US income taxes receivable	3 793	3 169
Accrued interest and investment income	560	1 606
VAT and other withholding taxes receivable	1 880	1 856
Other accrued income and amounts receivables	1 443	2 288
Total other receivables	86 951	8 919
■ Other receivables - Current	35 988	8 919
■ Other receivables - Non-current	50 963	–

Amounts receivable of CHF70.00 million for the land sale relate to the disposition of investment property detailed in note 13. The amount is receivable in three instalments due in 2021, 2022 and 2023, and is guaranteed by a bank guarantee of payment in favour of the ILO.

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)	2020	2019
Less than 1 year	84 849	7 486
1–2 years	1 152	513
Over 2 years	950	920
Total net receivable	86 951	8 919

Note 10 – Inventories

70. Publications were previously valued as inventory at the lower of cost and current replacement cost or net realizable value. The remaining value was subsequently written off after two years when they were considered obsolete, showing as an expense on the consolidated statement of financial performance.
71. Following the movement from print to electronic publications, steadily declining inventory levels, and rapid obsolescence, the Organization opted to derecognize inventory of publications starting in 2020, charging the remaining balance to the consolidated statement of financial performance.

Note 11 – Other current assets

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

(US\$ thousands)	2020	2019
Prepaid expenses	17 402	20 827
Staff advances	7 017	7 865
Other	2 170	1 802
Total other current assets	26 589	30 494

Note 12 – Property and equipment

73. 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. 2018	299 694	267 571	7 103	4 898	579 266
Additions	–	26 375	85	998	27 458
Depreciation	–	(7 072)	(659)	(1 585)	(9 316)
Disposals – carrying amount	–	–	–	(181)	(181)
Disposals – accumulated depreciation	–	–	–	181	181
Transfer to investment property	(146 552)	–	–	–	(146 552)
Net revaluation recognized in net assets	105 944	(6 254)	–	–	99 690
Foreign exchange differences on translation	–	–	(154)	(25)	(179)
Subtotal 2019 movement	(40 608)	13 049	(728)	(612)	(28 899)
Closing balance 31 Dec. 2019	259 086	280 620	6 375	4 286	550 367

(US\$ thousands)	Land	Buildings	Leasehold	Equipment	Total
Gross carrying amount 31 Dec. 2019	259 086	280 620	12 743	14 238	566 687
Accumulated depreciation	–	–	(6 368)	(9 952)	(16 320)
Net carrying amount 31 Dec. 2019	259 086	280 620	6 375	4 286	550 367
Additions	–	8 347	154	1 659	10 160
Depreciation	–	(7 802)	(641)	(1 557)	(10 000)
Disposals – carrying amount	–	(770)	–	(279)	(1 049)
Disposals – accumulated depreciation	–	–	–	244	244
Net revaluation recognized in net assets	61 048	36 270	–	–	97 318
Foreign exchange differences on translation	–	–	576	74	650
Subtotal 2020 movement	61 048	36 045	89	141	97 323
Closing balance 31 Dec. 2020	320 134	316 665	6 464	4 427	647 690
Gross carrying amount 31 Dec. 2020	320 134	316 665	14 095	15 877	666 771
Accumulated depreciation	–	–	(7 631)	(11 450)	(19 081)
Net carrying amount 31 Dec. 2020	320 134	316 665	6 464	4 427	647 690

Land and buildings

74. The Organization owns its headquarters building in Geneva, Switzerland, and the land upon which it was built along with an adjoining plot.
75. At its 337th Session in October–November 2019, the Governing Body confirmed its decision to sell one additional vacant plot of land to partially fund the ongoing building renovation project. Following the change in use, starting from November 2019, this plot of land was transferred from property and equipment to investment properties, pending the completion of the contractual terms of the sale as at 31 December 2019. The related transfer in 2019 is presented as “Transfer to investment property” under “Land” in the table above, and the final disposition in 2020 is detailed in the investment properties note 13.
76. 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 28).
77. In 2020, the ILO sold its property in Brussels, Belgium with relocation of the ILO Office for the European Union and Benelux countries to the United Nations shared accommodations. This is presented as “Disposals” under “Buildings” in the table above.
78. In order to more accurately reflect the value of its land and buildings, an independent appraiser reviewed and updated the fair value of all remaining properties as at 31 December 2020 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 2020 includes US\$53.19 million revaluation gain due to currency rate fluctuation. The net difference between historical cost and land and buildings valued at fair value is recognized as a separate component of the net assets as shown in note 20.

US\$ (thousands)	2020	2019
Land		
Headquarters – Geneva	308 233	250 411
Lima	3 828	3 970
Abidjan	3 516	469
Santiago	4 557	4 236
Total Land	320 134	259 086
Buildings		
Headquarters – Geneva	290 917	255 558
Lima	12 121	12 572
Brasilia	1 407	1 229
Abidjan	4 108	2 655
Dar es Salaam	1 615	1 988
Buenos Aires	564	524
Islamabad	502	455
Santiago	5 431	4 869
Brussels	–	770
Total buildings	316 665	280 620
Total land and buildings	636 799	539 706

79. The renovation of the final one third of the office space in the headquarter building in Geneva and the building owned by the ILO in Brasilia were completed in 2020. The related capital expenditures are presented as “Additions” to “Buildings”.

Leasehold improvements

80. The Organization has constructed improvements on leasehold property in New Delhi (India), Bangkok (Thailand) and the Piedmont Pavilion and renovations to other buildings at the ITC.

Note 13 – Investment property

81. During 2020, the sale of the vacant land plot recorded as investment property was finalized and the property was sold. The transaction was considered as a subsequent event as at 31 December 2019 and the fair value of the land at that date was estimated based on the discounted proceeds from the subsequent sale.
82. The base selling price of CHF150.00 million resulted in a gain of US\$4.73 million in 2020. The first instalment of CHF80.00 million was received upon finalization of the sale, and the remaining instalments of CHF70.00 million are detailed in Other Receivables (note 9).
83. The total consideration is subject to increase should local authorities approve for the purchaser a building density greater than the statutory minimum at the time of the sale. This additional consideration will be confirmed only by the occurrence of these uncertain events that are outside the control of the ILO. As at 31 December 2020, there is insufficient information to be able to determine if this future event is probable, or to estimate any potential amount.

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

US\$ (thousands)	2020	2019
Opening balance at 1 January	149 108	-
Transfer from land and buildings	-	146 553
Disposals	(149 108)	-
Fair value adjustment resulting from net exchange differences	-	2 555
Closing balance at 31 December	-	149 108

Note 14 – Intangible assets

85. 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 2018	410	1 468	1 878
Additions	-	1 087	1 087
Amortization	(192)	(408)	(600)
Foreign exchange differences on translation	(1)	(1)	(2)
Subtotal 2019 movement	(193)	678	485
Closing balance at 31 December 2019	217	2 146	2 363
Gross carrying amount 31 December 2019	1,233	4 702	5 935
Accumulated amortization	(1 016)	(2 556)	(3 572)
Net carrying amount 31 December 2019	217	2 146	2 363
Additions	-	1 064	1 064
Amortization	(130)	(401)	(531)
Foreign exchange differences on translation	1	1	2
Subtotal 2020 movement	(129)	664	535
Closing balance at 31 December 2020	88	2 810	2 898
Gross carrying amount 31 December 2020	1 253	5 790	7 043
Accumulated amortization	(1 165)	(2 980)	(4 145)
Net carrying amount 31 December 2020	88	2 810	2 898

Note 15 – Deferred revenue

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

(US\$ thousands)	Current	Non-current	Total 31 Dec. 2020	Total 31 Dec. 2019
Assessed contributions received in advance	40 647	-	40 647	39 996
Voluntary contributions receivable for signed agreements	281 807	249 858	531 665	513 867
Due to donors (including ITC)	509 261	-	509 261	396 564
Receivables for signed agreements for ITC training services	9 423	3 364	12 787	14 928
SHIF contributions received in advance	720	-	720	678
Other deferred revenue	538	-	538	110
Total deferred revenue	842 396	253 222	1 095 618	966 143

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

Note 16 – Employee benefits

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

(US\$ thousands)	Current	Non-current	Total 31 Dec. 2020	Total 31 Dec. 2019
Education grant	786	–	786	789
Accumulated leave and home leave	28 216	15 450	43 666	35 687
Repatriation entitlements	5 124	39 649	44 773	45 086
ASHI liability	29 067	2 017 068	2 046 135	1 842 305
Total employee benefits liabilities	63 193	2 072 167	2 135 360	1 923 867

Post-employment benefits

United Nations Joint Staff Pension Fund

89. 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.
90. 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.
91. The latest actuarial valuation for the Fund was completed as of 31 December 2019, and a roll forward of the participation data as of 31 December 2019 to 31 December 2020 was used by the Fund for its 2020 financial statements.
92. The actuarial valuation as of 31 December 2019 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.2 per cent (139.2 per cent in the 2017 valuation). The funded ratio was 107.1 per cent (102.7 per cent in the 2017 valuation) when the current system of pension adjustments was taken into account.
93. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2019, 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.

94. 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 (2017, 2018 and 2019) amounted to US\$7,546.92 million, of which 2.1 per cent was contributed by the ILO.
95. During 2020, the ILO's contributions paid to the Fund amounted to US\$59.40 million (US\$56.64 million in 2019). Expected contributions due in 2021 are US\$59.60 million.
96. 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.
97. 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)

98. An actuarial valuation carried out for 2020 calculated the ILO's estimated liability for after-service medical benefits at the reporting date as described in the following paragraphs.
99. 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 2020 valuation, the assumptions and methods used are as described below.

Key financial assumptions	2020 (%)	2019 (%)
Discount rate		
ILO	0.56	0.83
ITC	0.72	1.47
ISSA	1.29	0.45
Rate of future compensation increases	3.50 + UNJSPF salary scale	3.50 + UNJSPF salary scale
Rate of pension increases	2.50	2.50
Medical inflation	3.30 decreasing by 0.10 per year to 3.00	3.40 decreasing by 0.10 per year to 3.10

100. The discount rate is determined by reference to market yields at the reporting date on high-quality corporate bonds. Based on the plan duration, the discount rate has been determined for each major currency in which the SHIF incurs liabilities (CHF, US\$, €). The final rate was 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 23 years (unchanged from 23 years in 2019).

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

Sensitivity information for health-care trend (US\$ thousands)	2020	2019
1 percentage point increase in health-care trend rate		
Effect on service and interest costs	40 361	40 171
Effect on defined benefit obligation	576 992	516 677
1 percentage point decrease in health-care trend rate		
Effect on service and interest costs	(28 333)	(28 421)
Effect on defined benefit obligation	(430 429)	(390 691)

102. The sensitivity of the ASHI DBO to changes in other key assumptions is as follows:

Sensitivity information for other key assumptions (% change)	2020 (%)	2019 (%)
Effect on defined benefit obligation:		
Discount rate + 1 percentage point	(20.3)	(19.7)
Discount rate - 1 percentage point	28.4	26.9

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

(US\$ thousands)	2020	2019
Defined benefit obligation, opening balance	1 842 305	1 593 940
Current service cost	78 861	69 114
Interest cost	15 804	25 391
Total costs recognized in the consolidated statement of financial performance	94 665	94 505
Net benefits paid	(24 771)	(25 475)
Actuarial (gain) loss due to experience	(29 702)	(6 762)
Actuarial (gain) loss due to financial assumption changes	158 856	246 161
Actuarial (gain) loss due to demographic assumption changes	4 782	(60 064)
Total actuarial (gain) loss recognized directly in the consolidated statement of changes in net assets	133 936	179 335
Defined benefit obligation, closing balance	2 046 135	1 842 305

104. Expenses related to interest cost and current services costs for 2020 have been recognized net of benefits paid in the consolidated statement of financial performance as staff costs. Cumulative net actuarial losses of US\$1,139.35 million (US\$1,005.41 million as of 31 December 2019) 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\$71.20 million is available in a SHIF Guarantee Fund (US\$61.80 million as at 31 December 2019) to cover future liabilities of SHIF. In addition, an amount of US\$10.67 million has been accumulated to partially fund the ASHI liability (US\$8.94 million as at 31 December 2019).
105. The ILO finances its ASHI liability on a pay-as-you-go basis. The Programme and Budget for 2020–21 includes a provision of US\$30.10 million for this purpose.

Repatriation entitlements

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

(US\$ thousands)	Current	Non-current	Total 31 Dec. 2020	Total 31 Dec. 2019
Travel & removal on separation	722	7 334	8 056	6 855
Repatriation grant	3 460	22 200	25 660	27 992
ITC end-of-service benefit	942	10 115	11 057	10 239
Total repatriation entitlements	5 124	39 649	44 773	45 086

107. An actuarial valuation carried out for 2020 calculated the ILO's estimated liability for repatriation entitlements at the reporting date as described in the following paragraphs.

108. Each year, the ILO reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements for the ILO's repatriation entitlements. For the 2020 valuation, the assumptions and methods used are as described below.

Key financial assumptions	2020 (%)	2019 (%)
Discount rate	ILO Repatriation grant: 2.13	ILO Repatriation grant: 3.03
	ITC Repatriation grant: 2.17	ITC Repatriation grant: 3.03
	ILO Travel and removal: 2.30	ILO Travel and removal: 3.03
	ITC Travel and removal: 0.33	ITC Travel and removal: 0.60
	End of service payment: 0.21	End of service payment: 0.60
Rate of future compensation increases:	3.50 + UNJSPF salary scale	3.50 + UNJSPF salary scale
Rate of future cost increases:	ILO rate: 0.9	ILO rate: 1.1
Repatriation travel and removal costs	ITC rate: 1.4	ITC rate: 1.8
Probability of benefit claim	ILO repatriation grant: 60	ILO repatriation grant: 65
	ITC Repatriation grant: 98	ITC Repatriation grant: 98
	ILO travel and removal: 74	ILO travel and removal: 74
	ITC travel and removal: 98	ITC travel and removal: 98

109. The discount rates were determined for the currencies US dollar and euro by reference to the AA corporate bond yield curve in the respective currency as at 31 December 2020.

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

(US\$ thousands)	2020	2019
Defined benefit obligation, opening balance	45 086	44 606
Current service cost	2 445	2 759
Interest cost	1 034	1 462
Total costs recognized in the consolidated statement of financial performance	3 479	4 221
Net benefits paid	(2 916)	(2 534)
Actuarial (gain) loss due to experience	(2 570)	(976)
Actuarial (gain) loss due to demographic assumption changes	(1 890)	(3 833)
Actuarial (gain) loss due to financial assumption changes	2 507	3 840

(US\$ thousands)	2020	2019
Total actuarial (gain) loss recognized directly in the consolidated statement of changes in net assets	(1 953)	(969)
Foreign currency exchange rate changes	1 077	(238)
Defined benefit obligation, closing balance	44 773	45 086

111. Expenses related to interest cost and current services costs for 2020 have been recognized net of benefits paid in the consolidated statement of financial performance as staff costs. Cumulative net actuarial gains of US\$10.24 million (US\$8.29 million as at 31 December 2019) have been recognized directly against net assets.
112. In accordance with IPSAS 39, no plan assets have been offset against the liability, however, an amount of US\$59.05 million has been accumulated by the ILO in the Terminal Benefits Fund (US\$51.81 million as at 31 December 2019) to fund future ITC end-of-service benefits and repatriation grants for both the ILO and the ITC.

Note 17 – Borrowings

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

(US\$ thousands)	Original construction loan	Renovation loan	2020 Total	2019 Total
Nominal value beginning of period	22 783	67 692	90 475	69 823
Amounts disbursed in the period	–	4 415	4 415	23 202
Amounts repaid in the period	(4 029)	(2 575)	(6 604)	(3 706)
Exchange rate effect on CHF borrowings	2 210	7 101	9 311	1 156
Nominal value end of period	20 964	76 633	97 597	90 475
Remaining unamortized fair value discount	(1 271)	–	(1 271)	(1 600)
Carrying value end of period	19 693	76 633	96 326	88 875

114. 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.
115. The renovation loan agreement was signed in April 2017 for 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, with the first instalment paid in 2020. The annual interest rate is fixed at 0.5 per cent, commencing when the total loan was disbursed in 2020.

116. 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	4 193	2 643	6 836
Payments due from second to fifth year	16 771	10 570	27 341
Payments due after five years	–	63 420	63 420
Nominal value at 31 December 2020	20 964	76 633	97 597

Note 18 – Due to Member States

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

(US\$ thousands)	2020	2019
Undistributed surpluses of prior periods	117	110
Undistributed net premia of prior periods	385	2 607
Undistributed 50 per cent of net premia	8 325	7 539
Subtotal	8 827	10 256
Incentive Fund	8 746	8 088
Total payable to Member States	17 573	18 344
■ Due to Member States – Current	14 272	2 505
■ Due to Member States – Non-current	3 301	15 839

118. 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 2020 amount is included in the accumulated fund balance pending the biennial results.

Calculation of net premium and Incentive Fund

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

120. 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. **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.

Composition of Incentive Fund (US\$ thousands)	2020	2019
Interest earned in current year	84	298
Interest earned in prior year	337	250
Total interest earned	421	548
50 per cent of net premium	8 325	7 540
Total available in Incentive Fund	8 746	8 088

Note 19 – Other current liabilities

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

(US\$ thousands)	2020	2019
Pass-through funds held as administrative agent	4 311	4 592
Provisions for contingencies	56	97
Other	1 677	1 566
Total other current liabilities	6 044	6 255

122. In some donor 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.

123. 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)	2020	2019
Balance as at 1 January	97	3 884
Additional provisions raised during the period	11	25
Provisions used during the period	(46)	(3 782)
Unused provisions reversed during the period	(6)	(30)
Balance as at 31 December	56	97

Note 20 – Reserves and accumulated balances

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

- **Reserves:** represent the balances of special funds established by the Governing Body, the ILC or the Financial Regulations and include:
 - **Working Capital Fund:** to finance budgetary expenditure pending receipt of assessed contributions and, 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 Centre.
- **Accumulated balances** include:
 - **Employee benefits:** represent initial recognition of the employee liabilities and subsequent impact of changes in actuarial gains and losses.
 - **Revaluation surplus of land and buildings:** represents the accumulated difference between the historic cost of land and buildings and the fair value as determined by the independent valuation.
 - **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.

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

(US\$ thousands)	2020	2019
Reserves		
Working Capital Fund	3 856	–
Income Adjustment Account	72 940	25 027
Terminal Benefit Fund	59 051	51 805
Fidelity Guarantee Fund	1 391	1 379
Extra-budgetary Fund	25	25
SHIF Guarantee Fund	71 199	61 802
ASHI Liability Reserve	10 668	8 938
ITC's Working Capital Fund	2 454	2 232
Total reserves	221 584	151 208
Accumulated balances		
Employee benefits	(1 693 191)	(1 561 659)
Revaluation surplus of land and buildings	396 140	445 930
Value of outstanding derivatives	(21 787)	(9 357)
Translation difference	(2 588)	(4 386)
Accumulated surplus	342 038	208 655
Total accumulated balances	(979 388)	(920 817)
Total net assets	(757 804)	(769 609)

Note 21 – Expenses

126. 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 22 – Financial instruments

127. 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

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

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

Financial risk management

130. 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

131. 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

132. 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.

133. 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.

- 134.** 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.
- 135.** 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.
- 136.** 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.
- 137.** The table below shows the impact on surplus/deficit and net assets as of 31 December 2020, 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	(22 215)	(1 558)
Impact on net assets: Derivative instruments	9 341	-
5 per cent appreciation of the foreign currency against US\$:		
Impact on surplus/deficit: Financial assets and liabilities other than derivative instruments	24 554	1 722
Impact on net assets: Derivative instruments	(10 325)	-

¹ The UN operational rate of exchange was US\$1 = CHF0.883, as at 31 December 2020.

² The UN operational rate of exchange was US\$1 = €0.815 as at 31 December 2020.

- 138.** 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.
- 139.** 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

- 140.** 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.
- 141.** The ILO is exposed to interest rate risk through its interest-bearing financial assets and fixed-income instruments. The impact of an increase or decrease in interest rates by 50 basis points is estimated as an increase or decrease on the surplus/deficit of the year by US\$4.31 million. The ILO believes that it is not subject to significant interest rate risk. The

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

Credit risk

- 142.** 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.
- 143.** 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.
- 144.** The ILO's investment policies limit the amount of credit exposure to any one counter-party and include conservative minimum credit quality requirements of investment grade.
- 145.** 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.
- 146.** 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	–	–	4 608	0.5
AA	59 464	18.4	129 675	15.2
A	248 821	77.1	485 203	57.0
BBB	7 025	2.2	–	–
<BBB	6 365	2.0	–	–
Not rated	846 ²	0.3	232 033 ³	27.2
Total	322 521	100.0	851 519	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.

- 147.** The ILO manages its exposure to derivative counterparty credit risk by contracting primarily with reputable financial institutions (A rated). As at the end of the year, the rating of derivatives counterparties was A to A+ within a maximum exposure of US\$12.48 million.
- 148.** 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

- 149.** Liquidity risk is the risk that the ILO will encounter difficulties in meeting its financial obligations associated with financial liabilities.
- 150.** The ILO manages liquidity risk by continuously monitoring actual and estimated cash flows. The ILO's total current assets of US\$1,394.01 million are sufficient to settle its current financial liabilities of US\$982.33 million. On an ongoing basis, it is anticipated that the ILO will continue to have sufficient liquidity to meet its financial obligations.

Capital management

- 151.** 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.
- 152.** The ILO manages its capital structure in light of global economic conditions, the risk characteristics of the underlying assets and working capital requirements. The ILO manages its capital by reviewing on a regular basis the actual results against the budgets approved by Member States.

Note 23 – Operating leases

- 153.** 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.
- 154.** 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\$2.58 million in 2020 (US\$2.74 million in 2019).
- 155.** The total amount of lease and sublease expense recognized in 2020 was US\$11.84 million (US\$11.03 million in 2019).
- 156.** Future minimum lease rental payments for non-cancellable leases for the following periods are:

(US\$ thousands)	2020	2019
Within one year	433	448
Later than one year and not later than five years	1 184	1 657
Later than five years	–	–
Total operating lease commitments	1 617	2 105

- 157.** The total amount of rent earned under contingent lease agreements in 2020 was US\$0.35 million (US\$0.77 million in 2019), comprising an ITC cost-sharing agreement with other UN agencies with the rent based on reimbursement of actual cost incurred and a profit-sharing agreement with the catering operator in the Geneva premises based on a percentage of revenue.

Note 24 – Statement of comparison of budget and actual amounts

- 158.** The ILO does not publish a consolidated budget. Consequently, separate statements of comparison of budget and actual amounts are prepared for each of the published budgets: the regular budget adopted by the ILC; the budget of CINTERFOR adopted by the ILO Governing Body; and the budget of the ITC adopted by the ITC Board of Directors. The approved budgets are governed by the Financial Regulations and are prepared on a different basis than that of the consolidated financial statements.
- 159.** 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

- 160.** 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

- 161.** 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

- 162.** 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.
- 163.** 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)	(35 782)	101	2 382	–	(33 299)
Reconciling items from budgetary basis to IPSAS basis:					
Reimbursement of deficit financing	79 176	–	–	–	79 176
Treatment of exchange differences	12 203	–	(977)	–	11 226
Provision for assessed contributions receivable	14 976	–	–	–	14 976
Amortization of receivable from Member States with financial arrangement	115	–	–	–	115

(US\$ thousands)	Regular budget	CINTERFOR	ITC	Other funds and eliminations	Total
De-recognition of inventory	(4 238)	-	-	-	(4 238)
Recognition of property and equipment	(172)	(11)	(359)	-	(542)
Recognition of intangible assets	615	-	-	-	615
Accrual of employee benefits	(3 537)	(64)	-	-	(3 601)
Provision for contingencies	41	-	-	-	41
Unrealized gain from forward purchase agreements	2 505	-	-	-	2 505
Accrual for ITC training and other services	(61)	-	-	-	(61)
Use of prior year surplus (ITC)	-	-	(268)	-	(268)
Entity difference (ITC)	-	-	500	-	500
Subsidiary funds	-	-	-	(10 831)	(10 831)
Total difference	101 623	(75)	(1 104)	(10 831)	89 613
Net result per IPSAS basis	65 841	26	1 278	(10 831)	56 314

164. The following table provides a reconciliation between statement V and statement IV for the year ended 31 December 2020:

(US\$ thousands)	Operating activities	Investing activities	Financing activities	Total
Net surplus (deficit) on a budgetary basis (Statement V)	(33 299)	-	-	(33 299)
Timing difference	-	-	-	-
Basis difference	99 871	73	-	99 944
Entity difference	98 080	(174 287)	(2 189)	(78 396)
Net consolidated cash flows (Statement IV)	164 652	(174 214)	(2 189)	(11 751)
Effect of exchange rates on cash and cash equivalents				24 648
Net increase in cash and cash equivalents				12 897

Note 25 – Related party disclosures

165. 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.
166. 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	2020		2019	
	Individuals ¹	Remuneration (US\$ thousands)	Individuals ¹	Remuneration (US\$ thousands)
Key management	12.7	4 732	12.0	4 133

¹ Full-time equivalent.

- 167.** There were US\$0.01 million of new advances granted in 2020 and outstanding to key management personnel as of 31 December 2020.
- 168.** 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.
- 169.** There were related party transactions involving key management personnel in 2020 totalling US\$0.12 million (US\$0.34 million in 2019). All such transactions are under terms and conditions that would apply in the normal course of operations.

Note 26 – Non-exchange transactions

- 170.** 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)	2020	2019
Assessed contributions from Member States	399 158	385 772
Voluntary contributions to development cooperation projects, RBSA, and gifts and grants	303 191	294 531
ITC training services and other non-exchange revenue	11 772	19 687
Total revenue from non-exchange transactions	714 121	699 990
Receivables from assessed contributions (note 5)	168 091	151 967
Receivables from voluntary contributions (note 6)	536 451	495 175
Total receivables from non-exchange transactions	704 542	647 142
Liabilities recognized for conditional voluntary contributions (note 15)	531 665	513 867
Liabilities recognized for ITC training services (note 15)	12 787	14 928
Advance receipts from assessed contributions (note 15)	40 647	39 996
Total liabilities from non-exchange transactions	585 099	568 791

Note 27 – Contingent assets and liabilities and commitments

Contingent assets

- 171.** As at the reporting date, the ILO has the following contingent assets:

(US\$ thousands)	2020
Member State contribution assessed for 2021 ¹	395 320
Revenue from voluntary ITC training services covering future periods	11 288
Contributions to the RBSA covering future periods	3 374
Total contingent assets	409 982

¹ CHF395,320 thousand at the budget rate of exchange of US\$1 = CHF1 adopted by the ILO for the 2020–21 biennium.

Contingent liabilities

- 172.** The ILO has contingent liabilities of US\$0.28 million for claims or legal actions related to the ILO Administrative Tribunal as at 31 December 2020 (US\$0.24 million as at 31 December 2019).

Commitments

- 173.** Outstanding contracts for renovation of the headquarters building totalled US\$1.15 million as at 31 December 2020 (US\$8.54 million as at 31 December 2019). The Centre had commitments related to future of US\$2.13 million as at 31 December 2020 (US\$3.27 million as at 31 December 2019).
- 174.** Future minimum lease rental payments for non-cancellable leases are presented in note 23.

Note 28 – Contributions in kind

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

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

Note 29 – Subsequent events

- 176.** In March 2020, the World Health Organization declared a global pandemic due to the COVID-19 virus. This situation has been in constant evolution and the measures put in place by authorities around the world have had global economic impacts. Management is actively monitoring the situation and has put in place various mitigating actions to lower risks identified as a result of the pandemic. Any impacts will be accounted for when they materialize and can be reliably estimated.

Note 30 – Segment reporting

- 177.** 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.
- 178.** Segment reporting is presented in a format that distinguishes funds with approved budgets (statement V-A, V-B and V-C), activities financed by voluntary contributions and other subsidiary funds (note 24).

► Consolidated statement of financial performance by segment for the year ended 31 December 2020 (US\$ thousands)

	Funds with approved budgets:				Voluntary contribution activities	Subsidiary funds	Intersegments transfers elimination	Total
	Regular budget	CINTERFOR	ITC	Subtotal				
Revenue								
Assessed contributions	399 158	-	-	399 158	-	-	-	399 158
Voluntary contributions	-	1 544	15 916	17 460	290 701	39 315	(44 285)	303 191
ITC training services	-	-	20 344	20 344	-	-	(9 483)	10 861
Programme support income	-	-	-	-	-	26 350	(26 350)	-
Staff/retiree benefit contributions	-	-	-	-	-	50 215	(27 252)	22 963
Sales and royalties	-	-	917	917	8 892	6 465	(1 562)	14 712
Investment income	-	18	122	140	2 638	10 041	-	12 819
Gain on sale of investment property	-	-	-	-	-	4 739	-	4 739
Other income	(2)	8	709	715	-	156 122	(155 167)	1 670
Total revenue	399 156	1 570	38 008	438 734	302 231	293 247	(264 099)	770 113
Expenses								
Salaries, employee benefits and other personnel costs	255 588	1 254	23 070	279 912	117 715	97 546	(22 780)	472 393
Travel	1 678	17	319	2 014	2 686	532	(5)	5 227
Subcontracts	22 244	149	6 720	29 113	113 956	1 249	(1 727)	142 591
General operating expenses	26 028	89	3 130	29 247	9 852	2 539	(1 227)	40 411
Supplies, materials and small equipment	3 530	6	465	4 001	6 858	127	(110)	10 876
Depreciation and amortization	1 529	12	931	2 472	-	8 059	-	10 531
Seminars, workshops and other training	3 835	2	1 272	5 109	14 555	150	(5 637)	14 177
Staff development	1 482	10	-	1 492	-	-	(439)	1 053
Health benefits	-	-	-	-	-	45 601	-	45 601
Contributions and grants in aid	47 779	-	-	47 779	3 791	171 123	(205 293)	17 400
Programme support costs	-	-	-	-	26 880	1	(26 881)	-
Finance expenses	(115)	3	39	(73)	313	2 174	-	2 414
Other expenses	4 292	-	-	4 292	-	2 324	-	6 616
Total expenses	367 870	1 542	35 946	405 358	296 606	331 425	(264 099)	769 290
Foreign exchange gains/(losses)	34 555	(2)	(784)	33 769	(213)	21 935	-	55 491
Net surplus (deficit)	65 841	26	1 278	67 145	5 412	(16 243)	-	56 314

► Consolidated statement of financial performance by segment for the year ended 31 December 2019 (US\$ thousands)

	Funds with approved budgets:				Voluntary contribution activities	Subsidiary funds	Intersegments transfers elimination	Total
	Regular budget	CINTERFOR	ITC	Subtotal				
Revenue								
Assessed contributions	385 772	-	-	385 772	-	-	-	385 772
Voluntary contributions	-	1 902	14 725	16 627	282 547	61 601	(66 244)	294 531
ITC training services	-	-	30 734	30 734	-	-	(12 072)	18 662
Programme support income	-	-	-	-	-	27 147	(27 147)	-
Staff/retiree benefit contributions	-	-	-	-	-	49 094	(26 879)	22 215
Sales and royalties	-	-	714	714	8 412	5 547	(790)	13 883
Investment income	-	29	174	203	4 390	16 142	-	20 735
Other income	71	15	1 100	1 186	-	1 252	-	2 438
Total revenue	385 843	1 946	47 447	435 236	295 349	160 783	(133 132)	758 236
Expenses								
Salaries, employee benefits and other personnel costs	263 462	1 234	21 280	285 976	104 080	85 767	(19 943)	455 880
Travel	13 166	111	4 154	17 431	10 949	1 214	(119)	29 475
Subcontracts	31 898	221	10 472	42 591	101 525	1 612	(1 643)	144 085
General operating expenses	32 191	109	4 018	36 318	9 703	1 716	(1 144)	46 593
Supplies, materials and small equipment	5 381	28	1 186	6 595	4 058	358	(23)	10 988
Depreciation and amortization	1 505	13	982	2 500	-	7 416	-	9 916
Seminars, workshops and other training	14 658	227	4 001	18 886	32 983	548	(8 586)	43 831
Staff development	4 552	15	-	4 567	-	-	(595)	3 972
Health benefits	-	-	-	-	-	47 471	-	47 471
Contributions and grants in aid	34 313	-	1	34 314	1 878	48 536	(73 301)	11 427
Programme support costs	-	-	-	-	27 773	5	(27 778)	-
Finance expenses	(230)	3	55	(172)	353	1 863	-	2 044
Other expenses	2 257	-	-	2 257	-	605	-	2 862
Total expenses	403 153	1 961	46 149	451 263	293 302	197 111	(133 132)	808 544
Foreign exchange gains/(losses)	15 254	(4)	185	15 435	(708)	1 451	-	16 178
Net surplus (deficit)	(2 056)	(19)	1 483	(592)	1 339	(34 877)	-	(34 130)

Note 31 – Assessed contributions – Summary

► Assessed contributions of Member States and amounts due by States for prior periods of membership in the ILO Summary for the year ended 31 December 2020 (in Swiss francs)

Details	Balance due as at 1.1.2020 ⁽¹⁾	Assessed contributions 2020	Total amounts due	Amount received or credited ⁽²⁾ 31.12.2020	Balance due as at 31.12.2020
A. Assessed contributions for the financial period 2020–21: 2020 – Assessed with the budget 2021 – Assessed with the budget		395 320 000	395 320 000 -	275 250 810 -	120 069 190 -
Total assessed contributions for the financial period 2020		395 320 000	395 320 000	275 250 810	120 069 190
B. Assessed contributions for previous financial periods due from Member States	164 651 724		164 651 724	117 444 924	47 206 800
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	171 267 413	-	171 267 413	117 444 924	53 822 489
Total 2020	171 267 413	395 320 000	566 587 413	392 695 734	173 891 679
Total 2018–19	165 378 967	760 596 400	925 975 367	754 707 954	171 267 413
Balance in US dollars at the United Nations rate of exchange for 31 December 2020 (0.883 Swiss francs to the dollar)					196 932 819
Less: prepayments of financial arrangements					(252 091)
Assessed contributions receivable in US dollars					196 680 728

⁽¹⁾ Excludes assessed contributions for 2020.

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

The incentive scheme for 2018

50 per cent Net Premium for prior years

Surplus for prior years

Total credits

in Swiss francs

236 798

2 202 107

3 673

2 442 578

Note 32 – Assessed contributions – Detailed information

► Assessed contributions of Member States and amounts due by States for prior periods of membership in the ILO – Details for the year ending 31 December 2020 (in Swiss francs)

States	2020 Assessed contributions				Amounts due for previous financial periods				Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020	Calendar years of assessment	
	%	Amount							
Afghanistan	0.007	27 672	–	27 672	42 676	–	42 676	2018–19	70 348
Albania	0.008	31 626	31 626	–	30 344	30 344	–		–
Algeria	0.138	545 542	545 542	–	–	–	–		–
Angola	0.010	39 532	39 532	–	–	–	–		–
Antigua and Barbuda	0.002	7 906	4 251	3 655	–	–	–		3 655
Argentina	0.916	3 621 131	43 337	3 577 794	5 553 630	2 157 567	3 396 063	2019	6 973 857
Armenia	0.007	27 672	27 672	–	–	–	–		–
Australia	2.211	8 740 525	8 740 525	–	–	–	–		–
Austria	0.677	2 676 317	2 676 317	–	–	–	–		–
Azerbaijan (4)	0.049	193 707	193 707	–	1 663 418	247 743	1 415 675	1995–2005	1 415 675
Bahamas	0.018	71 158	71 158	–	–	–	–		–
Bahrain	0.050	197 660	178	197 482	–	–	–		197 482
Bangladesh	0.010	39 532	39 532	–	30	30	–		–
Barbados	0.007	27 672	27 672	–	–	–	–		–
Belarus	0.049	193 707	193 707	–	–	–	–		–
Belgium	0.822	3 249 531	3 249 531	–	–	–	–		–
Belize	0.001	3 953	65	3 888	3 803	–	3 803	2019	7 691
Benin	0.003	11 860	11 860	–	34 170	34 170	–		–
Bolivia (Plurinational State of)	0.016	63 251	–	63 251	91 268	–	91 268	2017–19	154 519

States	2020 Assessed contributions				Amounts due for previous financial periods				Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020	Calendar years of assessment	
	%	Amount							
Bosnia and Herzegovina	0.012	47 438	52	47 386	47 460	–	47 460	2019	94 846
Botswana	0.014	55 345	55 345	–	–	–	–		–
Brazil	2.949	11 657 987	221 132	11 436 855	20 164 500	5 618 094	14 546 406	2019	25 983 261
Brunei Darussalam	0.025	98 830	98 830	–	–	–	–		–
Bulgaria	0.046	181 847	181 847	–	–	–	–		–
Burkina Faso	0.003	11 860	11 860	–	–	–	–		–
Burundi	0.001	3 953	3 953	–	–	–	–		–
Cabo Verde	0.001	3 953	3 953	–	–	–	–		–
Cambodia	0.006	23 719	23 719	–	–	–	–		–
Cameroon (2)	0.013	51 392	–	51 392	79 842	–	79 842	2017–19	131 234
Canada	2.735	10 812 002	10 812 002	–	–	–	–		–
Central African Republic (4)	0.001	3 953	3 953	–	44 656	20 080	24 576	1998–2000 + 2004–07	24 576
Chad (2)	0.004	15 813	–	15 813	64 459	–	64 459	2016–19	80 272
Chile	0.407	1 608 953	1 608 953	–	1 105 560	1 105 560	–		–
China	12.010	47 477 932	47 477 932	–	–	–	–		–
Colombia	0.288	1 138 522	528	1 137 994	2 854 365	1 429 995	1 424 370	2018–19	2 562 364
Comoros (2)	0.001	3 953	–	3 953	471 437	–	471 437	1986–2019	475 390
Congo (2)	0.006	23 719	–	23 719	49 734	–	49 734	2017–19	73 453
Cook Islands	0.001	3 953	3 953	–	–	–	–		–
Costa Rica	0.062	245 098	194 417	50 681	–	–	–		50 681
Côte d'Ivoire	0.013	51 392	51 392	–	–	–	–		–
Croatia	0.077	304 396	304 396	–	–	–	–		–

States	2020 Assessed contributions				Amounts due for previous financial periods				Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020	Calendar years of assessment	
	%	Amount							
Cuba	0.080	316 256	–	316 256	397 456	–	397 456	2018–19	713 712
Cyprus	0.036	142 315	174	142 141	–	–	–		142 141
Czechia	0.311	1 229 445	1 229 445	–	–	–	–		–
Democratic Republic of the Congo (2)	0.010	39 532	–	39 532	83 438	–	83 438	2017–19	122 970
Denmark	0.554	2 190 073	2 190 073	–	–	–	–		–
Djibouti	0.001	3 953	115	3 838	8 584	8 584	–		3 838
Dominica (2)	0.001	3 953	9	3 944	41 299	3 803	37 496	2010–19	41 440
Dominican Republic	0.053	209 520	209 137	383	4 253	4 253	–		383
Ecuador	0.080	316 256	3 631	312 625	448 660	193 262	255 398	2018–19	568 023
Egypt	0.186	735 295	735 295	–	–	–	–		–
El Salvador	0.012	47 438	1 014	46 424	54 950	52 994	1 956	2019	48 380
Equatorial Guinea	0.016	63 251	686	62 565	1 946	–	1 946	2019	64 511
Eritrea	0.001	3 953	3 953	–	3 724	3 724	–		–
Estonia	0.039	154 175	154 175	–	–	–	–		–
Eswatini	0.002	7 906	7 906	–	–	–	–		–
Ethiopia	0.010	39 532	654	38 878	38 179	38 015	164	2019	39 042
Fiji	0.003	11 860	11 860	–	–	–	–		–
Finland	0.421	1 664 297	1 664 297	–	–	–	–		–
France	4.429	17 508 723	17 508 723	–	–	–	–		–
Gabon (2)	0.015	59 298	–	59 298	373 946	–	373 946	2014–19	433 244
Gambia (2)	0.001	3 953	–	3 953	75 373	–	75 373	1999–2019	79 326
Georgia	0.008	31 626	31 626	–	–	–	–		–

States	2020 Assessed contributions				Amounts due for previous financial periods				Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020	Calendar years of assessment	
	%	Amount							
Germany	6.093	24086 848	24 086 848	-	-	-	-		
Ghana	0.015	59 298	50 801	8 497	913	913	-		8 497
Greece	0.366	1 446 871	1 446 234	637	504	504	-		637
Grenada	0.001	3 953	48	3 905	22 551	18 701	3 850	2018-19	7 755
Guatemala	0.036	142 315	142 315	-	-	-	-		-
Guinea	0.003	11 860	-	11 860	7 520	-	7 520	2018-19	19 380
Guinea-Bissau (2)	0.001	3 953	-	3 953	286 995	-	286 995	1992-2001 + 2003-19	290 948
Guyana	0.002	7 906	7 906	-	-	-	-		-
Haiti	0.003	11 860	11 860	-	-	-	-		-
Honduras	0.009	35 579	30 944	4 635	-	-	-		4 635
Hungary	0.206	814 359	814 359	-	-	-	-		-
Iceland	0.028	110 690	110 690	-	-	-	-		-
India	0.835	3 300 922	3 300 922	-	-	-	-		-
Indonesia	0.543	2 146 588	1 936	2 144 652	-	-	-		2 144 652
Iran (Islamic Republic of)	0.398	1 573 374	-	1 573 374	3 478 611	-	3 478 611	2018-19	5 051 985
Iraq (4)	0.129	509 963	509 963	-	2 440 910	307 521	2 133 389	1998-2007	2 133 389
Ireland	0.371	1 466 637	1 466 637	-	-	-	-		-
Israel	0.490	1 937 068	1 937 068	-	786 353	786 353	-		-
Italy	3.309	13081 139	13 081 139	-	-	-	-		-
Jamaica	0.008	31 626	38	31 588	-	-	-		31 588
Japan	8.568	33871 018	33 871 018	-	-	-	-		-
Jordan	0.021	83 017	83 017	-	-	-	-		-

States	2020 Assessed contributions				Amounts due for previous financial periods				Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020	Calendar years of assessment	
	%	Amount							
Kazakhstan	0.178	703 670	703 670	–	257 342	257 342	–		
Kenya	0.024	94 877	94 877	–	68 454	68 454	–		–
Kiribati	0.001	3 953	2	3 951	84	–	84	2019	4 035
Kuwait	0.252	996 206	996 152	54	54	54	–		54
Kyrgyzstan (4)	0.002	7 906	9	7 897	1 049 691	31 940	1 017 751	1993–2017	1 025 648
Lao People's Democratic Republic	0.005	19 766	172	19 594	3 653	–	3 653	2019	23 247
Latvia	0.047	185 800	185 800	–	–	–	–		–
Lebanon	0.047	185 800	86	185 714	357 844	344 892	12 952	2019	198 666
Lesotho	0.001	3 953	3 953	–	–	–	–		–
Liberia	0.001	3 953	3 953	–	–	–	–		–
Libya	0.030	118 596	289	118 307	1 424 195	475 373	948 822	2018–19	1 067 129
Lithuania	0.071	280 677	280 677	–	–	–	–		–
Luxembourg	0.067	264 864	264 864	–	–	–	–		–
Madagascar	0.004	15 813	379	15 434	–	–	–		15 434
Malawi	0.002	7 906	–	7 906	15 358	14 667	691	2019	8 597
Malaysia	0.341	1 348 041	1 348 041	–	–	–	–		–
Maldives	0.004	15 813	98	15 715	–	–	–		15 715
Mali	0.004	15 813	15 813	–	–	–	–		–
Malta	0.017	67 204	67 204	–	5	5	–		–
Marshall Islands	0.001	3 953	3 953	–	–	–	–		–
Mauritania	0.002	7 906	–	7 906	151	–	151	2019	8 057
Mauritius	0.011	43 485	43 485	–	44	44	–		–

States	2020 Assessed contributions				Amounts due for previous financial periods			Calendar years of assessment	Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020		
	%	Amount							
Mexico	1.293	5 111 488	107 247	5 004 241	5 461 082	5 461 082	-		5 004 241
Mongolia	0.005	19 766	19 766	-	-	-	-		-
Montenegro	0.004	15 813	15 813	-	-	-	-		-
Morocco	0.055	217 426	217 426	-	-	-	-		-
Mozambique	0.004	15 813	15 813	-	14 496	14 496	-		-
Myanmar	0.010	39 532	38 341	1 191	872	872	-		1 191
Namibia	0.009	35 579	35 579	-	-	-	-		-
Nepal	0.007	27 672	27 516	156	23 106	23 106	-		156
Netherlands	1.357	5 364 493	5 364 493	-	-	-	-		-
New Zealand	0.291	1 150 381	1 150 381	-	-	-	-		-
Nicaragua	0.005	19 766	19 766	-	-	-	-		-
Niger	0.002	7 906	3 040	4 866	-	-	-		4 866
Nigeria	0.250	988 300	557 863	430 437	1 170 267	1 170 267	-		430 437
North Macedonia	0.007	27 672	27 672	-	-	-	-		-
Norway	0.754	2 980 713	2 980 713	-	-	-	-		-
Oman	0.115	454 618	454 618	-	-	-	-		-
Pakistan	0.115	454 618	439 505	15 113	35 008	35 008	-		15 113
Palau (2)	0.001	3 953	-	3 953	7 775	-	7 775	2017-19	11 728
Panama	0.045	177 894	177 582	312	16 858	16 858	-		312
Papua New Guinea	0.010	39 532	-	39 532	15 212	-	15 212	2019	54 744
Paraguay (4)	0.016	63 251	3 780	59 471	301 325	2 531	298 794	1999-2003 + 2011-13	358 265
Peru	0.152	600 886	-	600 886	352 310	297 178	55 132	2019	656 018

States	2020 Assessed contributions				Amounts due for previous financial periods				Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020	Calendar years of assessment	
	%	Amount							
Philippines	0.205	810 406	810 406	-	-	-	-	-	-
Poland	0.802	3 170 467	3 170 467	-	-	-	-	-	-
Portugal	0.350	1 383 620	1 383 620	-	-	-	-	-	-
Qatar	0.282	1 114 803	1 114 803	-	-	-	-	-	-
Republic of Korea	2.268	8 965 858	7 697 149	1 268 709	-	-	-	-	1 268 709
Republic of Moldova (4)	0.003	11 860	11 860	-	818 802	136 467	682 335	1997-2004	682 335
Romania	0.198	782 734	782 734	-	9	9	-	-	-
Russian Federation	2.406	9 511 399	7 982 244	1 529 155	-	-	-	-	1 529 155
Rwanda	0.003	11 860	11 860	-	8 217	8 217	-	-	-
Saint Kitts and Nevis	0.001	3 953	3 953	-	-	-	-	-	-
Saint Lucia	0.001	3 953	-	3 953	7 419	-	7 419	2018-19	11 372
Saint Vincent and the Grenadines	0.001	3 953	67	3 886	1 434	-	1 434	2019	5 320
Samoa	0.001	3 953	3 953	-	-	-	-	-	-
San Marino	0.002	7 906	7 906	-	-	-	-	-	-
Sao Tome and Principe (2)	0.001	3 953	-	3 953	204 697	-	204 697	1995-2019	208 650
Saudi Arabia	1.173	4 637 104	4 637 104	-	-	-	-	-	-
Senegal	0.007	27 672	-	27 672	21 828	-	21 828	2018-19	49 500
Serbia	0.028	110 690	110 690	-	-	-	-	-	-
Seychelles	0.002	7 906	7 906	-	-	-	-	-	-
Sierra Leone (4)	0.001	3 953	1 242	2 711	265 992	-	265 992	1992-2019	268 703
Singapore	0.485	1 917 302	1 917 302	-	-	-	-	-	-
Slovakia	0.153	604 840	604 840	-	-	-	-	-	-

States	2020 Assessed contributions				Amounts due for previous financial periods				Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020	Calendar years of assessment	
	%	Amount							
Slovenia	0.076	300 443	300 443	–	–	–	–		
Solomon Islands (2)	0.001	3 953	–	3 953	45 280	11 544	33 736	2010–19	37 689
Somalia (4)	0.001	3 953	–	3 953	419 546	–	419 546	1988–2019	423 499
South Africa	0.272	1 075 270	1 075 270	–	–	–	–		–
South Sudan	0.006	23 719	23 719	–	97 982	97 982	–		–
Spain	2.147	8 487 521	8 487 521	–	–	–	–		–
Sri Lanka	0.044	173 941	173 941	–	–	–	–		–
Sudan (2)	0.010	39 532	20	39 512	80 902	–	80 902	2017–19	120 414
Suriname (2)	0.005	19 766	8	19 758	61 506	–	61 506	2017–19	81 264
Sweden	0.907	3 585 553	3 585 553	–	–	–	–		–
Switzerland	1.152	4 554 087	4 554 087	–	–	–	–		–
Syrian Arab Republic	0.011	43 485	–	43 485	134 642	72 280	62 362	2019	105 847
Tajikistan (2)	0.004	15 813	–	15 813	451 469	40 813	410 656	1995–2019	426 469
Thailand	0.307	1 213 633	1 213 633	–	–	–	–		–
Timor-Leste (2)	0.002	7 906	4	7 902	23 383	–	23 383	2017–19	31 285
Togo	0.002	7 906	7 906	–	–	–	–		–
Tonga	0.001	3 953	61	3 892	26	–	26	2019	3 918
Trinidad and Tobago	0.040	158 128	158 128	–	–	–	–		–
Tunisia	0.025	98 830	98 830	–	–	–	–		–
Turkey	1.372	5 423 791	5 423 791	–	–	–	–		–
Turkmenistan	0.033	130 456	130 456	–	94 312	94 312	–		–
Tuvalu (2)	0.001	3 953	–	3 953	7 651	–	7 651	2017–19	11 604
Uganda	0.008	31 626	28 987	2 639	68	68	–		2 639

States	2020 Assessed contributions				Amounts due for previous financial periods				Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020	Calendar years of assessment	
	%	Amount							
Ukraine (4)	0.057	225 332	225 332	–	632 943	316 472	316 471	1999 + 2009	316 471
United Arab Emirates	0.616	2 435 171	2 184 073	251 098	–	–	–		251 098
United Kingdom	4.569	18062 171	18 062 171	–	–	–	–		–
United Republic of Tanzania	0.010	39 532	39 189	343	–	–	–		343
United States	22.000	86970 400	1 439 111	85 531 289	96 209 718	96 209 718	–		85 531 289
Uruguay	0.087	343 928	–	343 928	–	–	–		343 928
Uzbekistan (4)	0.032	126 502	126 502	–	975 200	149 800	825 400	1999–2014	825 400
Vanuatu	0.001	3 953	50	3 903	221	–	221	2019	4 124
Venezuela (Bolivarian Republic of) (2)	0.728	2 877 930	–	2 877 930	12 396 700	–	12 396 700	2014–19	15 274 630
Viet Nam	0.077	304 396	304 396	–	–	–	–		–
Yemen (2)	0.010	39 532	–	39 532	151 772	–	151 772	2016–19	191 304
Zambia (2)	0.009	35 579	–	35 579	76 439	–	76 439	2017–19	112 018
Zimbabwe	0.005	19 766	16 186	3 580	30 863	30 863	–		3 580
Total Member States	100.000	395 320 000	275 250 810	120 069 190	164 651 724	117 444 924	47 206 800		167 275 990
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									

States	2020 Assessed contributions				Amounts due for previous financial periods				Total due as at 31.12.2020
	Assessed contributions ⁽¹⁾		Amount received or credited	Balance due as at 31.12.2020	Balance due as at 01.01.2020	Amount received in 2020	Balance due as at 31.12.2020	Calendar years of assessment	
	%	Amount							
Former Socialist Fed. Rep. of Yugoslavia ⁽⁵⁾	–	–	–	–	6 370 623	–	6 370 623	1989–2001	6 370 623
<i>Total – Amounts due by States when they ceased to be Members of the ILO</i>	–	–	–	–	6 370 623	–	6 370 623		6 370 623
TOTAL	100.000	395 320 000	275 250 810	120 069 190	171 267 413	117 444 924	53 822 489		173 891 679

(1) **Assessed contributions for 2020.** Represents contributions assessed with the approval of the 2020–21 budget.

(2) **Member States which, at 31 December 2020, have lost the right to vote under the provisions of paragraph 4 of article 13 of the Constitution.** The arrears of contributions of these Member States equal or exceed the amount of the contributions due from them for the past two full years (2018–19). Each of these Member States had therefore lost the right to vote, in accordance with the provisions of paragraph 4 of article 13 of the Constitution of the Organization.

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

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

Member State	Session of Conference at which arrangement was approved	
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)
Ukraine	99th	(2010)
Uzbekistan	104th	(2015)

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

► **6. Report of the External Auditor to the
Governing Body on the financial operations
of the International Labour Organization
for the year ended 31 December 2020**



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

To the Governing Body of the International Labour Office:

We have the honor to transmit the Report of the External Auditor on the Financial Operations of the International Labour Organization for the financial year 2020.

Our report as the External Auditor of the Organization contains the results of our audit of the 2020 financial statements, and also our observations and recommendations on the review of the programme/project implementation and delivery, and operations of country offices of the Organization. Value-adding recommendations were communicated and discussed with Management which they agreed to implement to further enhance efficient and effective management of the Organization.

Our audit was conducted in accordance with the International Standards on Auditing. 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 points during the 2021 Governing Body meeting.

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

Quezon City, Philippines
20 April 2021

**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 2020**

**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 2020**

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List of acronyms

BUDFIN	Budget and Finance Branch
BUD/DC	Development Cooperation Budget Unit, previously BUD/CT
CO	Country Office
COA	Commission on Audit
COSH	Committee on Occupational Safety and Health
COVID-19	Coronavirus Disease 2019
CPO	Country Programme Outcome
CRPS	Chief, Regional Programme Services
CTAs	Chief Technical Advisers
DC	Development Cooperation
DCCoP	Development Cooperation Community of Practice
DG	Director General
DSA	Daily Subsistence Allowance
DWCP	Decent Work Country Programme
DWT	Decent Work Technical Support Team
EVAL	Evaluation Office
EXCOL	External Collaborator
FACILITIES	Facilities Management Unit
FINANCE	Financial Management Department
GED	Gender, Equality and Diversity
GEDI	Gender, Equality, Diversity and Inclusion Branch
GP	Global Product
HIIS	Health Insurance Information System
HQ	Headquarters
HR	Human Resources
HRD	Human Resources Development Department
HR/TALENT	Talent Management Branch
IA	Implementation Agreement
IAO	Office of Internal Audit and Oversight
ICSC	International Civil Service Commission
IG	Internal Governance
IGDS	Internal Governance Documents System
ILO	International Labour Organization
INFOTEC	Information and Technology Management Department
INI	Furniture and Equipment Management System
INTOSAI	International Organization of Supreme Audit Institutions
IOAC	Independent Oversight Advisory Committee
IP	Implementation Planning

IPSAS	International Public Sector Accounting Standards
IRIS	Integrated Resource Information System
ISA	International Standards on Auditing
ITC	International Training Centre
JAAB	Joint Advisory Appeals Board
JD	Job Description
JIU	Joint Inspection Unit
JNC	Joint Negotiating Committee
NPCs	National Project Coordinators
OBW	Outcome-based workplan
OCT	Outcome Coordinating Team
OECD	Organisation for Economic Co-operation & Development
OGA	Oracle Grants Accounting module
PARDEV	Partnerships and Field Support Department
P&B	Programme and Budget
PIR	Programme Implementation Report
PJ	Project
PMTS	Payments
PROCUREMENT	Procurement Bureau
PROGRAM	Strategic Programming and Management Department
QAM	Quality Assurance Mechanism
RAPS	Recruitment, Assignment and Placement System
RB	Regular Budget
RBM	Results-Based Management
RBTC	Regular Budget Technical Cooperation
RO	Regional Office
RPU	Regional Programming Unit
SDGs	Sustainable Development Goals
SHIF	Staff Health Insurance Fund
SM	Strategic Management
SOP	Standard Operating Procedure
TOR	Terms of Reference
TPR	Technical Progress Report
UN	United Nations
UNDP	United Nations Development Programme
SWAP	UN System-wide Action Plan
UW	Unit Workplan
VAT	Value Added Tax
XBDC	Extrabudgetary 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 first 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 in 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 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 2020, 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 2020.

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 Country Office for Algeria, Libya, Mauritania, Morocco and Tunisia (CO-Algiers); and (b) ILO Country Office for Turkey (ILO-Ankara). Likewise, we conducted an audit on the financial statements and operations of the International Training Centre (ITC) in Turin, which is consolidated in the ILO financial statements.

Further, we reviewed the programme/project implementation and delivery 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 resulted in the following key audit observations which need to be addressed by ILO Management:

Programme Management Policy and Strategy

- a. The ILO's Programme Management policies and strategies require enhancement in response to the current economic and health crisis. Particularly, governance directives and guidance for, inter alia, Regular Budget Technical Cooperation (RBTC), Coronavirus Disease 2019 (COVID-19) project tagging, seminars and implementation agreement as well as the manual for programming internal governance, are either wanting or deficient of criteria, updates, guidelines and procedures with regards to the implementation of programme and projects and eventually the delivery of the ILO's objectives.

Programme Management Processes and Procedures

- b. Compliance with processes and procedures remains an area of concern across the ILO. There was a seeming lack of compliance and regard to some operational processes and procedures within the organization, especially in the field offices, that are in place in order for the programmes and projects to be implemented and delivered within the given budget and period. Specifically, these are observed in the Development Cooperation (DC) project delivery, review mechanism on linking Country Programme Outcomes (CPOs), reviewing project feasibility, uploading and updating information in the Strategic Management/Implementation Planning (SM/IP) and DC dashboard, monitoring Outcome-based workplans (OBWs), inclusion of project inception phases during project design and appraisal, updating terms of reference of the members of the Outcome Coordination Teams (OCTs), integrating lessons learned in the project proposal, and fostering a knowledge management culture, among others.

Control Environment in Country Offices (COs)

- c. Value-adding improvement opportunities were raised on ways the COs enhance their project implementation and monitoring activities amidst the challenges of COVID-19 pandemic which calls for strategic solutions to enable the achievement of the project's expected results. In addition, issues on policy compliance and controls in COs need to be given heightened attention by ILO to promote effective and efficient delivery of policies, processes, and procedures towards attainment of its objectives.

Summary of recommendations

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

- a. **the ILO should consider the development of a guidance document to include:**
 - (a) **identification, prioritization and compliance with the criteria provided in the corresponding directives and guidance of CPOs/GPs to be allocated with RBTC;**

and (b) advices to facilitate challenges in the implementation of the new administration and management of RBTC resources;

- b. the ILO should 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;
- c. the ILO should consider the updating and enhancement of Programming Internal Governance 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;
- d. the ILO should enhance the accountability process of linking the CPOs with the output indicators; and the uploading and updating information in the SM/IP by: (a) ensuring compliance by programme managers; (b) strengthening support by RPUs, and technical specialist in the field and HQ; and (c) robust and regular monitoring by the OCT, output focal points and PROGRAM;
- e. the ILO should 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;
- f. the ILO should improve the quality of the design of the projects and appraisal of project proposals by: (a) facilitating staff development and capacity building of project originators with focus on the programmatic as well as financial design of projects specifically responsive to the risks that will contribute to project implementation delays and extensions; (b) encouraging the inclusion of project inception phases during project design and appraisal; and (c) reviewing the feasibility of project results given the timeframe and available budget during project design, appraisal and implementation;
- g. the ILO should 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, BUD/DC, PROCUREMENT, 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;
- h. the ILO should craft quality assurance guidelines that: (a) establish an enhanced review mechanism on linking CPOs, and the uploading and updating of information in the SM/IP with stronger engagements by all those involved in the process; (b) outline roles and responsibilities for the key data quality assurance evaluators; and (c) obtain agreement on the points and regular time the quality review will occur and how and to whom findings will be reported;

- i. the ILO should address the cause of delay and launch the OBW dashboard within the planned timeframe to provide ILO with an effective monitoring tool for projects;
- j. the ILO should disseminate clear and specific criteria for tagging, in consonance with ILO's four-pillar policy framework and related guidance, through a supplemental instruction and checklist, thereby, enabling consistent and timely compliance from the field offices while ensuring that responsible managers are held accountable on the timely compliance with the COVID-19 tagging in DC projects, CPOs and GPs;
- k. the ILO should initiate collaboration among PARDEV, PROGRAM and EVAL to ensure that lessons learned through evaluations are effectively fed-back into the design of any new ILO intervention in order to improve the quality of the intervention and eventually its successful implementation to achieve the corresponding project impact;
- l. the ILO should strengthen internal coordination by ensuring a robust Terms of Reference 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;
- m. the ILO should strengthen knowledge management with regard to programme planning, resource allocation, and implementation reporting across the organization by: (a) strengthening an online collaborative workspace building on existing platforms such as DCCoP; (b) investing in the production of relevant data and information materials; and (c) fostering a knowledge management culture on this matter at all levels of the Office, through improved coordination between PROGRAM, PARDEV, FINANCE and ITC/ILO; and
- n. the ILO should adopt strategic solutions that would consider the current situations in the country offices in implementing projects despite the challenges of the COVID-19 pandemic, and enhance supervisory and monitoring controls over critical processes to ensure compliance and to enhance operational efficiency and effectiveness.

Implementation of the External Auditor's recommendations in prior years

We noted in our validation of implementation of the 34 prior years' audit recommendations that 11 (32 per cent) had been fully implemented, 1 (3 per cent) had been implemented on an ongoing basis, 7 (or 21 per cent) had been partially implemented, 13 (or 38 per cent) are still in the process of implementation, and 2 (or 6 per cent) had deferred implementation.

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 122-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. 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 38 years, 20 years of which as a member of the United Nations Board of Auditors.

2. At its 334th Session in 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 terms of reference 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 with regard to 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 2020 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 programme/project implementation and delivery, and 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.

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

10. During the financial year 2020, in addition to the audit of the financial statements, we also conducted audits on the: (a) ILO Country Office for Algeria, Libya, Mauritania, Morocco and Tunisia (CO-Algiers); and (b) ILO Office for Turkey (ILO-Ankara). In addition, we conducted an audit on the financial operations of the ITC 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 IAO work. We also collaborated with the Independent Oversight Advisory Committee (IOAC) to further enhance our audit work.

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

B. 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 2020, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with 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. Further, we 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 made by ILO Management to address a number of recommendations issued in the course of our audit of the ILO 2020 financial statements, in order to present fairly the balances of the affected accounts and improve the presentation and disclosures in compliance with the IPSAS. We noted improvement opportunities to enhance financial reporting and these are communicated to ILO Management through a management letter.

17. In view of the global COVID-19 pandemic, the audit of financial statements was conducted remotely. The guidance provided by the International Auditing and Assurance Standards Board (IAASB) in conducting audit in COVID-19 environment was considered. The necessary access to ILO systems was provided to the External Auditor and audit procedures to verify the account balances and transactions were satisfactorily performed.

2. Programme/Project Implementation and Delivery Amidst the Pandemic

18. The review on programme implementation and delivery assesses the plans and actions taken by ILO amidst the COVID-19 pandemic in terms of adequacy and efficiency of policies and strategies. It includes assessing whether its programmes are continuously implemented and delivered in consonance with the Centenary Declaration while adopting to the challenging work environment because of the pandemic. The audit did not only encompass ILO's programme implementation and delivery but also the integral parts of the programming cycle which are carried within the adopted Results-Based Management (RBM) approach having an overall purpose of ensuring that plans, programmes and projects provide results to constituents despite the pandemic.

19. Overall, the objective of the review was to determine whether the current strategic arrangements for programme implementation are covered with appropriate policies and frameworks to effectively address the challenges of the current pandemic, and the adequacy and efficiency of the corresponding strategy, methods, processes, and controls that were in place to support the ILO's operational mandates and objectives.

20. As at 31 December 2020, ILO has 657 DC projects with a total budget of US\$388,456,692. The RBTC totalled US\$40,574,277.00 as at 2 March 2021 which is allocated to different Programmes in all of the regions (Africa, Americas, Arab States, Asia and the Pacific and; Europe and Central Asia), Technical Departments, South-South and Triangular Cooperation as well as Employers' and Workers' Activities.

2.1 Policies supporting the delivery of programme/project

21. The ILO implemented the Organization's Programme of Work for 2020-21, which is consistent with its Strategic Plan for 2018-21 and continues to be framed and driven by the Centenary Declaration. The ILO responded to the Centenary Declaration's call to act with urgency, seize the opportunities, and address the challenges to shape a fair, inclusive, and secure future of work with full, productive, and freely chosen employment and decent work for all. Likewise, a number of guidelines issued by ILO's administrative departments served operational purposes in ensuring business continuity, and to implement and deliver services in the context of a challenging work environment.

2.1.1 Implementation of RBTC projects

22. RBTC is a category of resources under the regular budget with the specific purpose of providing direct support to ILO constituents with distinctive rules concerning its allocation and utilization. It can only be used for programmatic purposes, and not to cover major equipment expenditure and office expenses such as staff meeting or staff salaries.

Disparity between RBTC programmatic allocation and delivery

23. RBTC allocations were previously released by PROGRAM to technical departments at headquarters and field offices, based on the amounts indicated in the P&B for the biennium, which in turn are *determined following consultations with the Director-General*. Although this process has always been the case, even before IRIS, PROGRAM clearly averred that *in line with the request of the Governing Body for greater transparency on all resources entrusted to the ILO, there is a new system of administration and management of RBTC. Hence, allocations will be based on request by technical departments at HQ and Regions to support CPOs/GPs that contribute to the delivery of commitments set forth under the Programme and Budget for 2020-21. The change aims to enhance monitoring of the programmatic allocation and programmatic delivery in line with RBM principles, ensuring that programme managers are accountable for delivery and have a degree of latitude in allocating and programming resources towards the achievement of results.*

24. The Information Note on RBTC delivery in 2020 showed that the delivery rate of RBTC resources programmed for the achievement of CPO/GP and inter-regional outcomes are on an average of 45 per cent and 47 per cent, respectively. The calculation, however, does not consider resources that are still to be programmed and funds that are still to be disbursed to the field offices and HQ units. It further shows the RBTC Delivery (CPO/GP) by Region and Global/Inter-Regional Level. We noted lower delivery in Asia and the Pacific at 39.65 per cent, followed by Europe and Central Asia at 40.44 per cent compared to Africa (47.39 per cent), Americas (49.02 per cent) and Arab States (45.01 per cent). Further review of the Information Note revealed that there were differences in the planned use of RBTC indicated by field offices and HQ departments in their disbursement requests compared to the actual allocations as underscored in the Information Note that a more granular analysis of resources allocated to CPOs/GPs shows that there is a correspondence between the original plans and the actual RBTC allocations in most regions and outcomes, with the allocations being slightly below what was planned in most cases.

25. It further disclosed that more than US\$7.2 million disbursed to the regions and HQ units are still unprogrammed, thus, unassigned to any CPOs or GPs linked to policy outcomes and outputs. In this regard, RBTC resources amounting to US\$3,079,027 as at 2 March 2021 have not been disbursed to regions/units and are still to be requested, an indicator that hinges on the effective and efficient use of RBTC resources.

26. PROGRAM clarified that the main reasons for the difference are the following: (a) time element; (b) the effort by field offices to strike a balance between delivery on the Regular Budget (RB) and extra-budgetary development cooperation (XBDC) resources in the COVID-context; and (c) the introduction and uptake of a new system of administration and management of RBTC in 2020. Further, in February 2020, the COVID-19 pandemic was declared, which resulted in the deferral and cancellation of key ILO activities at the global, regional or national levels. Hence, there are some allocations that were not programmed to specific CPOs/GPs as planned.

27. IGDS Number 447 dated 16 November 2015 highlighted the importance of planning on the use of RBTC indicating that *“as part of an integrated resource framework, it is one of the sources of funds available to the Office to achieve the targets established in the programme and budget. To this effect, the use of RBTC shall be planned in an integrated manner with other sources of funds”*.

28. The disparity of the distribution of CPOs/GPs submitted to PROGRAM and the CPOs linked to the projects for which the RBTC resources were utilized raises concern on strategic planning and the use of RBTC resources. Management commented that when regions and units submit the distribution of allocation to respective CPOs/GPs, PROGRAM can probe the allocation whether it was in line with the criteria for the use of RBTC as provided in the directives of the DG and provisions of IGDS 446 and 447.

29. We emphasize that the optimal use of RBTC resources requires early planning, prioritization and monitoring to enhance organizational and development learning that can result in more informed decision-making, thereby enhancing programme and results accountability. With the progress of the improvements introduced in the administration and management of RBTC, there is an increased expectation for better strategic allocation and delivery. However, this requires enhanced and transformed work practices and changed cultures.

30. **We recommended that ILO should consider the development of a guidance document to include: (a) identification, prioritization and compliance with the criteria provided in the corresponding directives and guidance of CPOs/GPs to be allocated with RBTC; and (b) advices to facilitate challenges in the implementation of the new administration and management of RBTC resources.**

31. **ILO Response.** The Office agrees with this recommendation. By the end of 2021, the PROGRAM will develop revised guidance for planning and monitoring of RBTC resources to enhance results-based management, based on lessons learned from the implementation of the revised allocation procedure rolled out in 2020 and 2021.

RBTC utilization rate below the minimum threshold for the first year of the biennium

32. Minimum expenditure thresholds of RBTC allocations are guided by IGDS 446 which indicates 15 per cent by the end of June of the first year of the biennium; 40 per cent by the end of the first year of the biennium; and 70 per cent by the end of June of the second year of the biennium. These thresholds are monitored by PROGRAM and FINANCE in the context of regular resource delivery reviews as well as through periodic OBW reviews. ILO explained that the rationale of the targets was anchored on the Governing Body's expressed concerns that majority of the allocation for RBTC were utilized at the end of the biennium. Hence, there was a call for an accountable and well balanced expenditure pattern across the biennium. Accordingly, PROGRAM in consultation with FINANCE, reviewed expenditure patterns and through an office-wide assessment, concluded that these targets were a fair distribution of expenditures, taking into account that the first six months of the biennium field offices and HQ units are mostly at planning stage.

33. Review of the RBTC allocation and utilization report of the ILO as at 2 March 2021 showed that the total amount of RBTC allocated in 2020-21 to programmes in the regions, policy departments, the Bureaux for Employer's and Workers' Activities and South-South and Triangular Cooperation – including the RBTC resources managed by the Turin Center, is US\$40.6 million. Of this amount, US\$37.5 million or 92 per cent have already been disbursed to Offices in the regions and units at HQ. Of the total RBTC allocation amounting to US\$40.6 million: US\$13.7 million (34 per cent) have been spent; US\$6.2 million (15 per cent) are committed; US\$17.5 million (43 per cent) are unspent and uncommitted; and US\$3.1 million (8 per cent) are still to be requested and released to the regions and HQ Units. Accordingly, as at 2 March 2021 the minimum expenditure threshold expected by the end of December 2020 of 40 per cent has not been achieved. Comparably, as at 8 January 2019, 12 months into the implementation of the 2018-19 P&B, the RBTC financial delivery rate was 44 per cent.

34. All of the regions and units did not achieve the minimum threshold of 40 per cent as at 31 December 2020 with Arab States having the lowest percentage expenditure at 21.1 per cent followed by Europe and Central Asia at 24.7 per cent, Asia and the Pacific (32.8 per cent), Africa (34.5 per cent), Turin Centre (34.7 per cent), HQ Units (35.8 per cent), and America (36.9 per cent). This was further heightened by the fact that the figures were extracted as at 2 March 2021 and by June 2021 a minimum of 70 per cent should be achieved where in only 15 of the 68 field offices

and HQ units that manage RBTC funds have delivered more than 50 percent of the allocations, while 25 offices and units have delivered less than 30 per cent.

35. The Information Note provides that ILO *is making good progress in the delivery of RBTC despite some delays relative to trends in previous years. The main reasons for such delays are as follows: (a) PROGRAM was in a position to inform regions and HQ departments of their RBTC allocations for 2020-21 only by mid-December 2019 following the Governing Body's endorsement of the Programme of Work for the biennium in November 2019; and (b) the impact of the COVID-19 crisis and lockdowns led to the re-orientation or cancellation of some activities in 2020, and the deferral to 2021.*

36. We noted that some of the measures adopted by ILO due to COVID-19 pandemic as indicated in the Guidance on the delivery of the P&B for 2020-21 are through the repurposing of available RBTC resources. As determined, however, the targeted expenditure was not attained. While it is understandable that the current pandemic has resulted in the deferment of the key activities of the Organization, it is reiterated that every effort should be made to reach the targeted level at the prescribed timeline and provide services and support to the ILO constituents, especially in relation to their responses to the COVID-19 pandemic.

37. PROGRAM suggested that *one better perspective on the financial delivery on RBTC is to provide incentives in order for programme managers to plan more and better. PROGRAM is exploring on realigning allocations from offices within a region.* While we consider the feasibility of the suggestion of PROGRAM, it is our view that more than providing incentive in order for programme managers to plan more and better, vigorous adherence to IGDS Number 446 is suggested. The IGDS prescribed that *should spending fall below the targeted level, RBTC resources will be reallocated to priority areas to ensure full and effective delivery.*

38. To ensure that RBTC allocations are planned, implemented and monitored to optimize results obtained throughout the biennium, DG's announcement, Office Procedure and Detailed Guidance were issued. ILO have given clear directions and latitude to project managers especially with the issuance of the new administration and management of RBTC in the pursuit of the most effective methods of achieving results, hence should be observed.

39. **We recommended that ILO 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.**

40. **ILO Response.** The Office takes note of the recommendation and has already taken action. At the end of March 2021, immediately after the audit, PROGRAM organized dedicated meetings with every region to discuss challenges and propose solutions to accelerate RBTC delivery. The Office will continue monitoring RBTC allocations regularly, including through the OBW review process and the OBW dashboard. Specific guidance on resource reallocation will be provided to regions and departments that fail to reach the delivery threshold.

2.1.2 Programming IG Manual as a readily available and up-to-date electronic policy manual

41. Part of responding to the challenges of the pandemic was a readily available and up-to-date policy manual on programming activities of the Organization. On 31 October 2014, Programming Internal Governance Manual was introduced through IGDS Number 397 (version 1). The Manual provides comprehensive information that assist managers and staff to understand the major ILO programming processes and products and offers practical guidance on procedures to be complied on programming matters. The Manual was organized according to the main ILO programming products and processes: (a) the Strategic Policy Framework; (b) the P&B; (c) the Programme Implementation Report (PIR); (d) Outcome-based work plans; and (e) management strategies. It emphasized the application of RBM in the programming cycle. It was gathered from document review and inquiry that the IG manual was intended as a reference point on programming for ILO staff at headquarters and in the field.

42. We observed that the Manual has not been updated since it was issued in 2014. It was expected that, considering the IG has a fluid operating context, it will be updated periodically as a living policy manual document. It is vital that programming improvements and developments be incorporated in the IG manual to assist managers and staff to better understand the ILO major programming processes and products as well as clear understanding of the strategies applied to support ILO's objectives and their role in ensuring that results are achieved.

43. PROGRAM commented that in September 2020, its departmental website was moved to SharePoint and restructured its content accordingly. The IG was not part of the SharePoint. PROGRAM stated that it would be more effective and efficient to maintain the various documents that comprise the IG in the SharePoint, which provides a good overview of relevant and up-to-date information and guidance on programming.

44. We underscore that the updating of the IG manual and providing its content in the Sharepoint as electronic manual will definitely increase the connectivity and reach as a comprehensive information to assist programme managers as well as staff in understanding the major ILO programming processes and products taking stock of the recent improvements and developments. Additionally, it can cover ILO programming procedures, directives and even guidelines in the various IGDS and manuals by electronically linking information related to IG thus, serving as one-stop electronic document reference on programming.

45. **We recommended that ILO should consider the updating and enhancement of Programming Internal Governance 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.**

46. **ILO Response.** The Office agrees with this recommendation. PROGRAM has already acted upon it since the audit. Work to update and enhance the internal governance manual on programming has started. This will be published in the form of an e-manual, easy to understand and apply by users. The e-manual will be made available on the Department's SharePoint by December 2021 and will be used to strengthen knowledge management on programming.

2.2 Strategies in programme/project delivery

47. The IGDS is the document that translate the strategy into organizational action so as to achieve strategic goals and objectives. It establishes the structure in classifying the internal governance documents that comprises the DG's announcements, Office directives, Office procedures, Office guidelines, and Information notes. In 2020, several guidance documents were issued to guide ILO in its programme and project implementation amidst the pandemic.

48. We noted that ILO is agile in responding to mitigate the adverse impact of the COVID-19 pandemic. Armed with the knowledge, lessons-learned, and initiatives from the financial and economic crises of 2007-08, the ILO formulated strategies and guidance which are crucial during the onset of the pandemic that allowed business continuity in the ILO. Nevertheless, some guidance necessitates fine-tuning to respond fully well to the challenges of the pandemic.

2.2.1 Guidance on linking and providing/updating of CPOs in the SM/IP

49. The Strategic Management (SM/IP) module of Integrated Resource Information System (IRIS) allows managers to plan and manage their programmes and budgets, consolidating information across different IRIS modules into an integrated and strategic view of resource information. On the other hand, the Implementation Planning (IP) supports dialogue across the Office (field and HQ, ITC) on joint planning to achieve Decent Work Outcomes. Hence, SM/IP plays a vital role in programme implementation and monitoring since it serves as a platform in reporting progress and achievements on the commitment set forth in the P&B 2020-21. It is underscored that the SM/IP supports implementation planning particularly the Outcome-based work plans. CPOs are created into SM/IP wherein other vital information are entered and will be linked to a P&B outcome. SM/IP is the principal tool used to guide the biannual OBW reviews.

50. Analysis of the data extracted from the SM/IP as of November 2020 containing the results of linking and relinking of CPOs to the output indicators in accordance with the various guidance issued for the related purpose showed the progress of output indicators towards the achievement of results is on track or above target but a number of output indicators are below target. ILO explained that it is normal to have a slower implementation of commitment compared to what was targeted in the P&B. The target settings were made a couple of years before the start of the biennium. Moreover, the fact that ILO is below or under target is even more justified due to the challenges brought by the pandemic and can also be attributed to new elements in the results framework of the current biennium. Likewise, it was highlighted that this does not mean that the ILO is underperforming, in many cases, the constituents' absorption capacity was very limited. Likewise, changes in targets can still occur even at the end of the second year of the biennium.

51. However, inquiries of PROGRAM, OCTs Lead and Members, Output Focal Points and Chief, Regional Programme Services (CRPS), disclosed that the accountability to link CPOs, provide and update information in the SM/IP are some of the challenges and causes of under or below target performance. As demonstrated in Guidance Note 1 – Implementation Planning for 20-21 issued on February 2020 by PROGRAM, programme offices in the field are primarily accountable to the linking and providing/updating of CPOs in the Strategic Management/Implementation Planning (SM/IP) with the support from the programme officers/specialist in the COs, Decent Work Teams (DWTs), Regional Offices (ROs), and OCT Lead, Members and Focal Point.

52. With the success of the first OBW review wherein virtual meetings facilitated an increased number of staff participation, the active engagement by senior managers and specialist from HQ and the field offices ensured the wide dissemination of key messages. This requires robust work practices and changed cultures. The procedures in the SM/IP as an accountability tool emphasizes that linking of CPOs, providing and updating of information in the system, and the exchanges of information, are management function by which all actors ensure that their extent of participation contribute to the achievement of desired results.

53. **We recommended that ILO should enhance the accountability process of linking the CPOs with the output indicators; and the uploading and updating information in the SM/IP by: (a) ensuring compliance by programme managers; (b) strengthening support by RPUs, and technical specialist in the field and HQ; and (c) robust and regular monitoring by the OCT, output focal points and PROGRAM.**

54. **ILO Response.** The Office agrees with the recommendation. Actions to increase accountability of the programming process are implemented in the context of the Office's well-established outcome-based workplan (OBW) system. In February 2020, ahead of the launch of the OBW monitoring dashboard, PROGRAM undertook a thorough review of all active CPOs and their linking to relevant outputs with a view to ensuring data accuracy. The OBW monitoring dashboard constitutes an important step forward towards enhanced transparency of country programmes and resource allocation, and therefore accountability. Furthermore, as part of the ongoing efforts to strengthen accountability for results, the Office will organize two OBW reviews in 2021 (July and November) and global webinars on the OBW monitoring dashboard (April) and CPO / output reporting (June).

2.2.2 Guidance on the modalities of project implementation

55. The external collaborators, grants, implementation agreements as well as seminars are modalities of project implementation. Each modality has its own IGDS. Hence, it was noted from the review of IGDS 224 for external collaborators that there was guidance on Travel and Security, and Termination and Modification of Contract and were adequate to address COVID-19 concerns in its delivery. Similarly, the IGDS 430 covering grants was sufficient, it included instances that ILO may request the grantee to refund the grant in full or in part where the results of the grant do not satisfy the grant agreement.

Guidance on the conduct of online/virtual seminar

56. The conduct of seminars (covered by IGDS 482) halted due to health protocols which directly prevents face to face activities during the COVID-19 pandemic. Nevertheless, field offices were still able to conduct these activities through online and virtual means. Management averred that it is not always more effective, as the effectiveness of delivery modality depends on the scope, volume and type of the activity. The electronic method of providing seminar largely depends on the worldwide web connectivity of the stakeholders, which was a challenge in some field offices but agreed that virtual activities was more efficient in terms of cost.

57. It is generally accepted that the electronic method is cost effective and more economical as compared to the traditional manner wherein ILO conducts the activity especially with the COVID-19 pandemic. However, the IGDS 482 did not include guidance information on the conduct of seminars, workshops and other trainings through online platforms. The possibility that

majority of the seminars will be conducted virtually during and post pandemic was greatly foreseen. Hence, we bring to fore that ILO initiate the process of conducting online seminars, in addition to the traditional face-to-face seminar, given the efficiency, effectiveness, viability and economic benefits it has brought on project implementation specifically during pandemic.

58. We recommended that ILO should 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.

59. ILO Response. The Office notes this recommendation. IGDS 482 applies to the organization of seminars, workshops and other ILO funded events "irrespective of the source of funding or the venue". The effectiveness of the delivery modality of seminars depends on the scope, volume and type of the activity undertaken. The Office will review IGDS 482 with a view to addressing any specificity of online seminars, as necessary.

2.3 Process and procedure in programme/project delivery

60. Process and procedure are series of steps performed by group of staff to achieve a concrete goal. It forms the lifeline for the Organization and assists in streamlining individual activities, making sure that resources are put to optimal use. Process and procedure are vital because it describe how things are done and provides the focus for making the activities better within every guidance, platform, dashboard and electronic module, among others. ILO operates in a dynamic environment and becomes more challenging with the emergence of the COVID-19 pandemic. Some processes in attaining results should be improved, if not changed, for the continuity of business operation and achievement of its objective.

2.3.1 Project delivery, results accountability and capability building

61. The 2018 DC Internal Governance Manual defined Development Cooperation as *a means to achieve the ILO's decent work outcomes that is fully embedded in the results framework and that is complementary to other means of action and sources of funds, through diverse and resourceful partnerships (financial or otherwise) and funding modalities*. DC delivers services to its constituents through their linkage to CPOs and P&B outcome indicators which contributes to ILO's programming framework.

62. Project design provides the structure of the outcomes that have to be achieved, laying down the activities and cost on the manner outcomes are realized, activities are implemented and monitored, and progress are verified. Therefore, the development of project design will influence the various stages of the project cycle. Project originators are responsible for this process, a diverse group of either neophyte or experienced ILO personnel and holding different functions such as programme officers and technical specialists. ILO may also use the expertise of external consultants in the design of the project.

63. Moreover, project appraisal constitutes the quality assurance mechanism within the project cycle and ensures that ILO technical and design standards for development cooperation have been met and that the proposal is consistent with ILO objectives and priorities and conditions set by the Decent Work Country Programme (DWCPs), national development

frameworks and resource partner to gain approval and obtain funding. Both project design and appraisal phases play a crucial role in the delivery and implementation of projects.

64. Analysis of project allocation utilization was done to determine project delivery. Among the active projects from the list extracted from the DC dashboard as at 10 November 2020, 12 projects were selected during the interim audit and were further analyzed during the year-end audit. The ILO PJ Status by Output and Expenditure for each project were downloaded from the IRIS as at 10 November 2020 and again in 25 March 2021. The prior years' budget, actual encumbrances and balances from both dates were compared to have a perspective of the final delivery. The 12 projects had a total allocation of US\$64,136,375.43 as at 10 November 2020, of which, there was a delivery of 24 per cent while nine per cent remained unutilized, and a considerable portion or 67 per cent were rephrased in the succeeding year.

65. Evaluation of the underlying causes for low delivery for 2020 can be partly associated with the ambitious project design and timeframes which were the result of challenges during project design and appraisal such as: (a) donor-imposed limitations; (b) capacity of project originators; (c) project implementation timeframe feasibility and budget; (d) exclusion of project inception phase; and (e) time allotment for project appraisal.

66. **We recommended that ILO should improve the quality of the design of the projects and appraisal of project proposals by:**

- a. facilitating staff development and capacity building of project originators with focus on the programmatic as well as financial design of projects specifically responsive to the risks that will contribute to project implementation delays and extensions;**
- b. encouraging the inclusion of project inception phases during project design and appraisal; and**
- c. reviewing the feasibility of project results given the timeframe and available budget during project design, appraisal and implementation.**

67. **ILO Response.** The Office agrees with the recommendations. On recommendation a), ILO staff capacity in project design will be built through the planned HRD/PARDEV/Turin DC Learning Journeys for staff. Recommendations b and c will be implemented through project design support, the appraisal mechanism, and the ongoing review during project implementation by the ILO responsible official for that project.

68. Project implementation and monitoring as integral parts of the DC project cycle encompass a set of actions aimed at achieving the project objectives. Putting into motion the strategies formulated during the design phase, it is vital to maintain control through robust coordination and continuous monitoring to ensure that targets are achieved and corrective actions are taken if necessary.

69. The agreement with funding partners involves commitment from the ILO to achieve targeted results within the given resources (budget/allocation) and timeframe, any project implementation short to this commitment are either requested for extension or delayed. Each year, this commitment is represented by target project outcomes and allocation, and is measured by how much allocation was utilized by the ILO following RBM principles. The ILO reported a final DC delivery at 70.49 per cent of the final total allocation of US\$388.46 million, deficient of 29.51

per cent. This final allocation includes rephasing of 22.71 per cent of the base allocation of US\$501.73 million as at 10 November 2020 and additional allocation of US\$0.66 million for projects started afterwards. Had it not for the rephasing of 22.71 per cent, the DC delivery could have been computed at 47.78 per cent (final expenditure of the 636 projects amounting to US\$273.65 million divided by the base allocation of US\$501.73 million) which is below the target. Achieving the funding agreement commitments depict the effectivity and efficiency on the manner ILO deliver its mandate through DC. As clearly stated in Results-based Budgeting Guide, *"Failure to deliver means that the ILO is vulnerable to reputational risk when a project cannot complete its designed outcomes on time and within budget, making the mobilization of resources from the same and other donors more difficult."*

70. PARDEV explained that most projects do not do a pre-rephasing in August/September because there is no requirement to do so. That means that most projects will have had artificially high allocations in the 2020 budget (not in line when the planned activities for 2020). Hence, the significant rephasing at the end of 2020/during the beginning of year mandatory rephasing. Although projects decreased budget allocations for 2020 at the end of the year, this does not automatically imply that projects have decreased targets for 2020. The link between the 2020 budget allocations and the 2020 work plans is sub-optimal.

71. It is emphasized, however, that as stated in the Results-based Budgeting Guide *"the project budget is the financial translation of the activities and is a financial commitment by the ILO to implement a donor-funded project. It is a reasoned estimation of the costs necessary for the delivery of the defined project outcomes."* ILO Management asserted that every activity lined in the workplan each year is aimed to achieve project outcomes (targets), and these activities are tied up with resources. In other words, when an allocation is rephased, the activities that are tied up with these allocations are consequently deferred. As such, it should be ensured that the linkage amongst and between allocation, implementation plan and workplan are optimal during the design and appraisal of projects. Any disparity necessitates the immediate revision or rephasing of budget and workplan during the year to reflect actual deliverables in both programmatic and financial aspect of the projects.

72. The Development Cooperation Budget Unit (BUD/DC) explained that *workplan and budget revisions happened throughout the year but the bulk of revisions were only done during mid-November to December. Revision or rephasing of budget should follow immediately after the necessary review and approval of the workplan and budget to reflect the actual realizable activities and budget.*

73. Likewise, PARDEV explained that causes of project extension, delay or low delivery during implementation and monitoring phase are *project and context specific* and usually a *multitude of inter-related factors* pertaining to internal and external matters. External factors are delay caused by the circumstances occurring during the implementation of project that affects the continuity of delivery of which ILO has no direct control while internal factors are challenges that ILO has control, which was related by PARDEV to the capacity of the managers responsible to the project, *"There are instances where scheduling or preplanning overall programs were not always efficiently done in field offices"*. Congruently, *"some project manager struggles more than others"*.

74. Project delays and extensions impact on delivery rate. As such, it is imperative that all actors in project implementation should have the capability and competence. They should likewise observe all policies and procedures involving project implementation to ensure efficient and effective delivery.

75. **We recommended that ILO should 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, BUD/DC, PROCUREMENT, 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.**

76. **ILO Response.** The Office agrees with the recommendation. The Office will enhance its capacity building efforts related to project cycle management to improve adaptive management of projects.

2.3.2 Review process, verifiability and veracity of information in the SM/IP

77. In implementing and monitoring programmes and projects, the integrity and quality of information gathered has to be emphasized in the course of the programming cycle. Building an effective programme implementation and monitoring system ultimately reflects an organization's intent to foster improvement of programme management, governance and accountability.

78. We noted that through OBW review meetings (which are formal means of validation) and apart from the information from the SM/IP, additional information on the progress of the CPOs were determined through conversations with Chief Technical Advisers (CTAs) and National Project Coordinators (NPCs), information from field specialists, inputs from OCT members and key technical departments, project progress reports and evaluation, among others.

79. The level of quality of information in the SM/IP is determined with the inputs from the field offices and the existing information review mechanism. It bears stressing that on top of providing and updating information in the SM/IP, validation is vital. Quality of information provided to the SM/IP does not happen by accident. It must be planned and verified so there is agreement on how quality is measured, and information corroborated and validated, thus, when quality checks occur, the data must meet predetermined standards for its completeness and veracity and if found short there are determined corrective actions that can be implemented.

80. Conducting quality assurance in reporting as part of quality management on the information regarding programme implementation is a way forward of preventing errors or blunders. It ascertains whether targets are indeed achieved, and has been reported accurately, if not, it can provide a starting point for developing future lessons learned and as an effective decision making tool.

81. An enhanced linking of CPOs, providing and updating information and review/quality assurance mechanism that further strengthens OBW reviews and SM/IP is therefore crucial to reporting and monitoring, and to programme and project implementation as a whole. These actions underscore the criticality of complete, validated, evidence-based information and will

ensure quality management focused on providing confidence that reliable and validated information will be reported.

82. **We recommended that ILO should craft quality assurance guidelines that: (a) establish an enhanced review mechanism on linking CPOs, and the uploading and updating of information in the SM/IP with stronger engagements by all those involved in the process; (b) outline roles and responsibilities for the key data quality assurance evaluators; and (c) obtain agreement on the points and regular time the quality review will occur and how and to whom findings will be reported.**

83. **ILO Response.** The Office agrees with this recommendation. Quality assurance guidance to review CPO information will be developed by June 2021, which will be applied in the first instance in the context of the preparation of the Programme Implementation Report 2020-21. Lessons learned arising from this exercise will be used to refine the approach going forward.

2.3.3 OBW monitoring dashboard

84. In the delivery of ILO's P&B for 2020-21, outcome-based work planning is core to the Office's process to bring together inputs from different technical areas and locations into unified plans in order to deliver on the commitments set in the P&B for the biennium. OCTs were required to prepare an OBW for the P&B outcome under its remit. Similarly, it was determined that the primary facility used for Programme Management monitoring functions is the OBW reviews. During the biennium, OBWs are reviewed and monitored bi-annually before the drafting of the biennium's Programme Implementation Report although we were informed that OBWs are monitored continuously on an informal basis. Crucial to OBW review is a monitoring tool.

85. The OBW Monitoring Dashboard is foreseen to provide a facility for the ILO to monitor the status and progress of CPOs as well as financial information and the process of resource tracking. Likewise, the dashboard interfaces with other dashboards and allows extracting of information and report which will definitely enhance programme implementation and monitoring.

86. Initially, the RBM Task Force reported that the dashboard is expected by September 2020. In the first OBW Review an internal informal group was tasked to develop a user-friendly monitoring dashboard, in collaboration with FINANCE and Information and Technology Management Department (INFOTEC) to be released in October 2020. We noted that the launching of the monitoring dashboard was delayed. Consequently, it was informed that on 18 November 2020, PROGRAM conducted a 90-minute open webinar regarding progress in the development of the new OBW monitoring dashboard. PROGRAM articulated that the dashboard is expected to be launched by the end of December 2020 or beginning of year 2021.

87. **We recommended that ILO should address the cause of delay and launch the OBW dashboard within the planned timeframe to provide ILO with an effective monitoring tool for projects.**

88. **ILO Response.** The Office agrees with this recommendation. Delays were due to urgent priorities the Office had to address to ensure business continuity in the COVID-19 context, which affected the original timeframe to launch the OBW dashboard. These delays have now been addressed and the OBW dashboard has become available at the end of March 2021.

2.3.4 Criteria on the tagging of COVID-19 responsive projects

89. Instructions were given to tag COVID-19 responsive CPOs both in the SM/IP and Oracle Grants Accounting (OGA) (anchored on the *four-pillar policy framework*) for tackling the socio-economic impact of the COVID-19 crisis. The process was developed in order to monitor and track ILO's response to the pandemic.

90. The list of CPOs and COVID-19 responsive projects provided by ILO showed that there were 754 target CPOs listed as COVID-19 responsive and 426 DC projects that were tagged as COVID-19 responsive in different levels. We noted that the CPO or output was tagged as COVID-19 responsive but the expenditure of the supporting project of the CPO was not tracked as COVID-19 responsive; and the expenditure of the supporting project for the CPO was tracked as COVID-19 responsive but the CPO to which the project was aligned was not tagged as COVID-19 responsive.

91. ILO explained that there was a need to have a detailed yet concise instruction or guidance and even a checklist for clarity on the criteria of COVID-19 tagging which allow consistency of its application in each country offices and among the different regions. Moreover, it was observed and confirmed by a CRPS that the numbers of COVID-19 tagged CPOs and projects are low. A country office programme officer explained that they have not yet fully implemented the COVID-19 tagging of their CPOs as at 20 November 2020.

92. The clarity of the criteria and instructions for COVID-19 responsive projects tagging affected the full implementation of the process. It is emphasized that the objective of the COVID-19 tagging can only be attained when the data input by programme managers are accurate, timely and based on consistent criteria. ILO should ensure that there is accountability over the quality of data entered in both SM/IP and the OGA. As such, full cooperation and compliance by the responsible managers with the COVID-19 tagging process is important.

93. **We recommended that ILO, through PROGRAM, should disseminate clear and specific criteria for tagging, in consonance with ILO's four-pillar policy framework and related guidance, through a supplemental instruction and checklist, thereby, enabling consistent and timely compliance from the field offices while ensuring that responsible managers are held accountable on the timely compliance with the COVID-19 tagging in DC projects, CPOs and GPs.**

94. **ILO Response.** The Office agrees with this recommendation. Specific criteria for COVID-19 tagging of CPOs and GPs, will be designed and disseminated by June 2021, which will be applied in the first instance in the context of the guidance for the preparation of the Programme Implementation Report 2020-21. Lessons learned arising from this exercise will be used to refine the approach going forward.

2.3.5 Lesson learned

95. Project evaluations are expected to generate useful lessons related to project implementation and substantive policy matters, which can be applied to improve programming and contribute to organizational learning. One fundamental use of lessons learned in evaluation is an input to the drafting of new projects proposals.

96. On the samples of evaluation reports in the i-EVAL Discovery, it provided various issues observed by EVAL. These issues were validated through audit query with field offices and revealed that the most common issues are administrative and procedural in nature which include: (a) delays in implementation and recruitments as well as managerial and technical support; (b) unrealistic goals and timeframe; (c) lack of coordination and communication; (d) cumbersome payment requirements; (e) access to systems; and (f) training of new project staff. Moreover, we noted that there were issues that are within the scope of control of ILO while others are beyond, such as political and the donor related issues. It is highlighted that these common and perennial issues can affect the delivery of the project and the continuing resource partner support.

97. The EVAL commented that *"the common issues were observed for quite a while. The issues are still there; it does not increase during the pandemic but these are issues that ILO needs to address."* Further, EVAL averred that *"the utilization of the evaluation by the project owners is not enough. The project owners can be selective on how they use the evaluations and findings. They can pick the lesson learned and other things in the evaluation report that they like. The common issues will still be there until they are addressed and come to realize that its over promised and under delivered."* PARDEV for their part commented regarding the common issues that *it needs to be addressed office-wide, it needs managerial as well as governance responses.* Furthermore, the DC manual clearly states that lessons learned and good practices feed into the design of projects that in due course impact delivery.

98. All lessons learned that were provided in the evaluation reports should be considered by program implementers. Being selective on what to consider whether it be technical, administrative or procedural issue will not address the gaps as pointed out by EVAL and the issues will remain unresolved until the Organization addresses them in totality.

99. **We recommended that ILO should initiate collaboration among PARDEV, PROGRAM and EVAL to ensure that lessons learned through evaluations are effectively fed-back into the design of any new ILO intervention in order to improve the quality of the intervention and eventually its successful implementation to achieve the corresponding project impact.**

100. **ILO response.** The Office partially agrees with this recommendation. While the ongoing close collaboration between PARDEV, PROGRAM and EVAL will continue, identifying and implementing solutions to the recurrent lessons learned require office-wide collaboration as indicated in the auditors' analysis above. Further efforts will be made to ensure lessons learned are fed-back effectively into design and implementation of any ILO intervention. This will involve i.a. the engagement with the Global Technical Teams (GTTs), the inputs into the OBW review process, the review of the design of new RBSA and DC interventions, as well as the continued improvement of administrative systems and procedures to enhance efficiency and transparency in the context of the implementation plan of the ILO Development Cooperation Strategy 2020-25.

2.3.6 Internal coordination

101. It is emphasized that one of the key elements for delivering the commitments set forth in the P&B is internal coordination, which plays a vital role in integrating activities that constantly change according to changes in the environment. With the organizational structure of ILO having various departments at the headquarters and field offices working interdependently, the organization necessitates a robust internal coordination. In fact, the first OBW Review of the 2020-21 biennium in June 2020 which focused on the effects of the COVID-19 pandemic on delivery of

the ILO programme of work highlighted *the recognition of the increasing importance of internal coordination: between regions and technical departments at headquarters, across HQ departments, within and across outcomes and with development cooperation projects*. And at the center are the *Outcome Coordination Teams (OCTs)*.

102. OCTs play a critical role in the effective delivery of P&B outcomes. The set-up of the OCTs took account of the unprecedented level of ambition of the P&B 2020-21 which enable to operate in a manner that is both inclusive and agile. OCT membership is composed of leads, output focal points and members which comprises a balance of both headquarters and field staff.

103. The efficiency and effectiveness of programme implementation and monitoring of the P&B 2020-21 requires a clear differentiation of roles and responsibilities among the PROGRAM, OCT and; COs, DWT and ROs, not just in terms of how they work together, but also in terms of how they coordinate and collaborate. To take a complete view of the extent of coordination of the offices and officials involved in the delivery of programme of works, we requested the completion of an audit questionnaire and held virtual meetings.

104. As a result, we noted that internal coordination process flow begins when the Director-General communicates the approach, composition and TORs of the OCTs. The role and responsibilities of the OCTs are engraved in the TORs set by the DG. We further noted that the current OCTs are different from the previous biennium since the composition of the OCTs for the 2020-21 P&B was expanded. Moreover, the results framework for 2020-21, which introduces for the first time a new layer of results at the output level, has required adjustments in the composition of the OCTs to enable them to operate in a manner that is both inclusive and agile. Thus, to further strengthen internal coordination, the clarity of the roles and responsibilities of the OCTs is crucial.

105. Considering that there was expansion in the composition of the OCTs and with respect to the recognition for strengthened internal coordination in the OBW Review, clarity of the roles and responsibilities should be encapsulated in the TORs of the OCTs. PROGRAM explained that *the TORs of the OCTs for 2020-21 were not substantively changed from those of the previous biennium; however, they were updated to take account of the unprecedented level of ambition of the Programme and Budget for 2020-21. The TORs are meant to provide a framework to steer the work of the OCTs, while avoiding to being a straightjacket.*

106. **We recommended that ILO should strengthen internal coordination by ensuring a robust Terms of Reference 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.**

107. **ILO Response.** The Office agrees with this recommendation. The terms of reference for the OCTs and its members will be reviewed at the end of 2021, as preparation for the implementation of the P&B 2022-23.

2.3.7 Knowledge sharing

108. The ILO technical departments at HQ and field offices deliver the outcomes set forth in the P&B through the implementation of programmes and projects in countries and regions. In

the programme implementation there was a possibility that the issues and concerns of one field office may be similar with another, or the challenges of a department maybe easily solve by another. The issues and concerns as well solutions to challenges that were accumulated and kept, including the lessons learned are intellectual wealth of the individual staff as well as each and every office and department of the Organization. Hence, knowledge sharing is important in finding solutions to challenges, and the lessons learned from the experiences encountered, to avoid if not eliminate committing the same mistake or blunders.

109. The optimization of DCCoP in the DC Learning Journeys platform can be argued for this purpose when ILO has diverse knowledge strategies and tools, including various platforms. The fact that programming work would call for a dedicated online workspace where OBW documents are stored and collaborative work on implementation reports, among others, can take place, and thus contribute to knowledge management and knowledge sharing. A dedicated online workspace would also address inefficiencies in the recent heavy email based practices involving many field and HQ based staff who share numerous files and save the same working documents in different places on ILO directories.

110. In anticipating for the availability of resources (including financial and human resources) to establish a dedicated online work space specific to programming work, strengthening the DCCoP in the DC Learning Journeys platform for the time being is the way forward. This is relevant to the ILO Core Competency and Values Framework, and complementary to the advisory function of PROGRAM to the DG and assistance to ILO management and staff on programming processes and activities.

111. **We recommended that ILO should strengthen knowledge management with regard to programme planning, resource allocation, and implementation reporting across the organization by: (a) strengthening an online collaborative workspace building on existing platforms such as DCCoP; (b) investing in the production of relevant data and information materials; and (c) fostering a knowledge management culture on this matter at all levels of the Office, through improved coordination between PROGRAM, PARDEV, FINANCE and ITC/ILO.**

112. **ILO Response.** The Office agrees with this recommendation. Knowledge management on programming-related issues will be strengthened further based on: (1) the updated version of the governance manual on programming (see Office Response in section 1.1.2) and further development of PROGRAM's SharePoint developed in 2020; (2) the roll-out of Microsoft Teams as the ILO's joint working and communication platform; and (3) a capacity development initiative targeting programme officers in field offices and at Headquarters and managers. At a general level with regard to fostering a knowledge management culture, the P&B for 2022-23 supported by the Governing Body at its 341st session includes the proposal for a new Innovation and Knowledge Management Unit, which will be mandated to drive knowledge and innovation across the Office to ensure it is best placed to meet the challenges facing the Organization. The unit will work in close association with the Turin Centre as it develops its new service delivery model and address the priority areas of action including: fostering a culture of collaboration and innovation; leading improved data and content management; spearheading knowledge-sharing; developing the institutional capacities; facilitating the formulation and implementation of innovative policies, products and services.

3. Control environment in Country Offices

113. For the financial year 2020, we audited the ILO CO-Algiers and ILO-Ankara. Our audits were aimed at ascertaining the: accuracy and completeness of financial and management information; efficiency, effectiveness and economy of operations; compliance with ILO regulations, rules and policies; and safeguarding of assets, the results of which were communicated to the heads of the Offices through an audit management letter.

114. The CO-Algiers, composed of Maghreb countries (Algeria, Mauritania, Morocco, Libya and Tunisia), has nine regular employees and 105 project-based personnel as at 31 December 2020. It has a regular budget of US\$1,950,596.00 for the biennium 2020-2021. During 2020, the CO-Algiers has 30 active projects with a total cost of US\$79,400,638.97 which are distributed among the Maghreb countries, except for Libya.

115. On the other hand, the ILO-Ankara has four regular employees and 49 project-based personnel. It has a regular budget of US\$859,585 for the biennium 2020-2021. For 2020, the ILO Development Cooperation Dashboard showed that the Office has nine active projects totalling US\$63,889,178.00.

116. The delivery of front-line controls, also known as management controls, reflects the effectiveness of level of the control environment within the offices in relation to managing DWCP, RBTC, DC projects, donor reporting, external collaboration contracts, payables and accruals, and asset management.

117. The overall results of the audit showed that there was a reasonable level of assurance that financial controls and operational processes at COs are in place and aligned with the ILO's objectives. There are however, areas where improvements can be made to enhance operational processes, particularly in the compliance with the policies and controls and project delivery, as discussed in the following paragraphs:

3.1 Compliance with ILO policies and controls

118. Policies are established to provide guidance, consistency and clarity for CO's operations, thereby promoting effective and efficient delivery of desired results and reducing the risk undermining achievement of the objectives. Internal controls, on the other hand, reduce organizational and operational risks as well as prevent errors and fraud. They ensure proper authorization, review and monitoring of transactions, thereby increasing reliability of the process and accuracy of reports.

119. In CO-Algiers, we noted that as at 31 December 2020, only Tunisia has an approved DWCP document out of the five Maghreb countries covered by CO-Algiers. Although, in the absence of DWCPs, the CO-Algiers has been performing through the P&B which is linked to the Sustainable Development Goals (SDGs). A review of the DWCP document for Tunisia disclosed that the number of formulated priorities, outcomes, and indicators exceeded the RBM limits and there was delay in the completion of its expected outputs/products. Accordingly, this happened because they had to consider what the constituents had requested. In addition, our review of Quality Assurance Mechanism (QAM) Checklist attached to the DWCP for Tunisia disclosed that the review comments from PARDEV, Gender, Equality and Diversity (GED) and EVAL were not formally recorded, although they were received by email. We also noted significant delays in the submission of

reports to donors which is not only a contractual obligation but is essential in maintaining good relations with resource partners.

120. While in ILO-Ankara, we noted that there was no approved DWCP document for Turkey because the Government of the Republic of Turkey considers that the DWCPs are mostly engaged with countries which are not in the same level of economic development as Turkey, being a G-20 country and considered as “high-middle income country” in accord with the Organisation for Economic Co-operation and Development (OECD) classification. Further, we observed delays in the submission of required reports to donors due to fact that the reports are still up for quality review and validation by the HQ before submission to the donors.

121. On compliance with established controls in CO-Algiers, our review of the RBTC Fund sub-allocation for the biennium 2020-2021 showed that there were expenditures incurred without allocations or which exceeded their allocations because no monitoring was done on the budget lines. Additionally, in the review of External Collaborator (EXCOL) contracts, we noted that costs pertaining to translation exercises as well as contracts for specific tasks were incorrectly charged against the seminar budget allocations. We also noted a number of uncleared or unadjusted accrual balances as at 20 March 2021 which need to be corrected with Budget and Finance Branch (BUDFIN). Moreover, in the review of asset management, we raised the non-reporting of damaged or lost assets to the Facilities Management Unit (FACILITIES) as well as the non-identification of accountable person for furniture and equipment.

122. Whereas in ILO-Ankara, our review of the RBTC Fund sub-allocation showed incurred expenditures (actual and encumbrance) that exceeded the allocations which needs robust monitoring and evaluation to ensure that allocations and utilizations are within approved amounts. On the other hand, in our review of asset management, we observed that there were some necessary fields or information in the Furniture and Equipment Management System (INI) which were not duly filled out and need to be updated. We also noted a number of uncleared or unadjusted accrual balances which need to be corrected.

3.2 Project delivery

123. COs underpin ILO’s work in promoting the Decent Work Agenda as an integral part of regional and national development policies. They work with the government, workers and employer organizations to promote decent and productive employment opportunities for men and women. Hence, we reviewed the quality of project delivery function of the COs as regards implementation of DC and RBTC projects to ensure that projects are implemented in accordance with ILO processes, methods, and procedures.

124. Overall, in CO-Algiers, we noted delays in the implementation of DC projects wherein recruitment delays were common issues during the inception phase which could have been avoided by starting with the recruitment process as soon as there is a firm commitment from the resource partner. We also observed that the fund utilization rates of the DC projects in Mauritania and Morocco were relatively lower as at 31 December 2020. Accordingly, this is caused by the complexity of the project that has three pillars – social protection, socio-economic and infrastructure. On RBTC projects, we noted that the utilization rate was below the minimum threshold of 40 per cent for the first year of biennium 2020-2021 caused by the restrictions on travels due to the pandemic which hampered the deployment of specialists on implementation of several activities that require presence.

125. In ILO-Ankara, our review of utilization of the RBTC funds revealed that out of the total allocation amounting to US\$117,000, only US\$28,574 was expended, thus, the delivery rate of 24.42 per cent as at 31 December 2020 was below the required target of 40 per cent. Relatedly, evaluation of some DC projects showed minimal fund utilization rates averaging to only 43 per cent. ILO-Ankara explained that this occurred because priorities were given to activities where implementation were less challenging under the restrictions imposed by the government during the pandemic. Moreover, review of the Technical Progress Report (TPR) of DC projects disclosed that the delivery of the intended project outputs were either delayed, put on hold or have not started in CY 2020 due to a number of challenges that are yet to be addressed.

126. Based from the results of our audits of critical operational and financial processes in the two country offices, aside from the effects on project implementation and on work disruption brought by the COVID-19 pandemic and political issues, we deemed it necessary to highlight the importance of controlling as a management function. Specifically, the controls that we have tested as part of our audits were all management controls or controls that occupy the first line of defense against the offices' business risks. The efficacy of treating these risks at source relies mainly on the design and operating effectiveness that were in place.

127. While we noted controls that were compliant in several processes undertaken by the offices, we considered it critical for these offices to strengthen compliance further and attain the objectives for which these controls were designed and installed. Essentially, what we have noted related to the need for the ILO to make its oversight or monitoring controls work more effectively.

128. **We recommended that the ILO should adopt strategic solutions that would consider the current situations in the country offices in implementing projects despite the challenges of the COVID-19 pandemic, and enhance supervisory and monitoring controls over critical processes to ensure compliance and to enhance operational efficiency and effectiveness.**

129. **ILO response.** The Office notes that the most urgent office-specific recommendations resulting from specific country audits have been accepted and addressed.

130. With regard to the strategic solutions for the timely programme/project delivery under the challenges of the COVID-19 pandemic, the Office issued guidelines in 2020 for making the necessary adjustments for programme implementation. This was followed up in March 2021 with review meetings across all regions to analyse delivery, identifying bottlenecks and proposing solutions to enhance effective implementation. Guidelines were issued on the implementation, delivery and evaluation of Development Cooperation projects; Where necessary contingency plans were put in place to take into account specific work plans and geographic conditions.

131. With regard to the supervisory and monitoring controls over critical processes, these are conducted on an ongoing basis, and have been strengthened during the pandemic, through the use of built-in review and approval workflows in IRIS, thematic reviews conducted at the regional level, as well as audit, evaluations and strategic financial analysis coordinated at the regional and headquarters' level.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS FROM PREVIOUS YEARS

132. We validated the implementation of external audit recommendations contained in prior years' audit reports. We noted that of the 34 outstanding recommendations, 11 (32 per cent) had been fully implemented, 1 (3 per cent) had been implemented on an ongoing basis, 7 (or 21 per cent) had been partially implemented, 13 (or 38 per cent) are still in the process of implementation, and 2 (or 6 per cent) had deferred implementation. Annex A presents the detailed analysis of the implementation of the recommendations. We recommended that the ILO should adopt an action plan and strategy to implement the audit recommendations to further improve operational efficiency.

D. DISCLOSURES BY MANAGEMENT

133. **Write-off.** Management reported that in accordance with article 33 of the Financial Regulations, a total of US\$172,394 in 2020 (US\$86,213 in 2019) were approved for write-off by the Treasurer. The write-off consists of: unrecoverable Value Added Tax (VAT) – US\$129,138, unrecoverable Staff Health Insurance Fund (SHIF) old outstanding advances – US\$22,872, unrecoverable SHIF PMTS – US\$20,215, and United Nations Development Programme (UNDP) Mauritania balance – US\$169. We noted that as required under the Financial Regulations the write-offs were approved by the Treasurer.

134. **Ex-gratia payment.** In accordance with article 32 of the Financial Regulations, no extra-gratia payments were made in 2020 (US\$0 in 2019).

135. **Cases of fraud and presumptive fraud.** We noted 11 reported cases of fraud or presumptive fraud in 2020 which translates to 65 per cent decrease from that of the 31 reported cases in 2019. The cases involved were: (a) project implementation fraud – two cases; (b) inventory irregularities and misconduct – one case; (c) theft or misappropriation of assets – five cases; (d) recruitment irregularities, outside activities fraud and inappropriate behaviour – one case involving six people; (e) non-payment of social security and pension contribution – one case; and (f) travel/Daily Subsistence Allowance (DSA) claims – one case. Nine of these cases are still for investigation by the IAO while two cases were closed. It was further noted that nine of these cases involved the field offices and two involved staff at HQ in Geneva.

E. ACKNOWLEDGEMENT

136. We wish to express our appreciation for the cooperation and assistance extended to our staff during our audit by the DG, the Deputy DG, Regional Directors, Headquarter Directors, the Treasurer and Financial Comptroller, Country Directors, and members of their staff.

137. 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.109/FIN/2019, ILC.108/FIN/2018, ILC.107/FIN/2017, and ILC.106/FIN/2016)

	Recommendation	External Auditor's Validation
	ILC.109/FIN/2019	
1	<p>External Collaborators – Transparency in selection process of External Collaborators:</p> <p>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. (Para. 21)</p>	<p>Partially implemented</p> <p>The Office agrees with this recommendation. In practice and to the extent possible, technical departments and field offices have started applying the requirements for competitive selection process of external collaborators, the justification for the determination of fees, the improvement of TORs, as well as attaching these documents in IRIS to serve as reference.</p> <p>The audit on external collaboration contracts by the office of IAO is expected to be issued in the first half of 2021, based on which a revised Office Directive will be published addressing issues related to the external collaborator selection process, among others.</p>
2	<p>External Collaborators – Evaluation of the performance of External Collaborators:</p> <p>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. (Para. 27)</p>	<p>Partially implemented</p> <p>The Office agrees partially with the recommendation. Given the very different nature of outputs to be performed by ILO external collaborators, it would not be appropriate to develop a one-size-fits-all evaluation form.</p> <p>However, the Office pays great attention to the adequate management of performance issues related to external collaborators and other third parties. In November 2019, an Office Procedure entitled "Performance issues relating to external collaborators, grantees, implementing partners and</p>

	Recommendation	External Auditor's Validation
		vendors", IGDS No. 553 (version 1) was issued, which defines unsatisfactory performance, and requires that the Contracting Officer be responsible for monitoring that the third parties performs its contractual obligations on time, within budget and in conformity with the agreed terms and conditions, and that performance issues of third parties should be documented in a timely and thorough manner and kept on file.
3	<p>Human resource management – Recruitment and selection policies and procedures:</p> <p>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. (Para. 38)</p>	<p>In progress</p> <p>The Office agrees with this recommendation. For the efficiency of merit-based hiring process, a review and drafting of the guidelines and workflow of direct selections have been initiated. The work includes definition of roles and responsibilities at different stages of the process and setting up timelines. A working group on recruitment & selection procedures for direct selection has been set up and will review the first draft of the workflow in April 2021.</p>
4	<p>Human resource management – Recruitment and selection policies and procedures:</p> <p>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. (Para. 46)</p>	<p>In progress</p> <p>The Office agrees with this recommendation. Use of call for expression of interest for the recruitment of DC staff has been used as per the Staff Regulations. Consultations being held to further develop standard operating procedures related to the process by the end of December 2021.</p>
5	<p>Human resource management – Recruitment and selection policies and procedures:</p>	<p>In progress</p> <p>This recommendation is under consideration. The Office considers that a one-size-fits-all mechanism for the</p>

	Recommendation	External Auditor's Validation
	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. (Para. 53)	recruitment and selection of local staff across all field offices will not be implementable. However, a set of best practices has been circulated to the Regions for appropriate reference in the context of their existing processes. Consultations being held to develop the relevant operating procedures, noting that, as referred to in the Staff Regulations, any new mechanisms or changes to existing mechanism for recruitment and selection of local staff in external offices need to be endorsed by the Joint Negotiation Committee prior to implementation.
6	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. (Para. 66)	In progress The Office takes note of this recommendation. Preparatory work is underway to review the functionalities of ILO Jobs platform to enhance the hiring process with a target date of December 2021.
7	Human resource management – Recruitment and selection methods: Design a mechanism that will hasten Job Description (JD) drafting and approval and will facilitate the identification and immediate resolution of any impediment and ensure timely vacancy posting for a more efficient recruitment and selection process. (Para. 73)	In progress The Office agrees with the recommendation. Internal consultations have been initiated for the design of Human Resource (HR) mechanism to formulate and validate job descriptions in an effective and efficient manner, with a view to improving the workflow and removing bottlenecks. The Recruitment, Assignment and Placement System (RAPS) sessions are assessed to identify areas that require further improvements.
8	Human resource management – Recruitment and selection methods:	In progress This recommendation is under consideration as the possibility to pre-screen

	Recommendation	External Auditor's Validation
	Develop a system of rosters/pools of pre-assessed candidates to facilitate in the attainment of sound, timely and effective selection process. (Para. 79)	candidates from rosters would require a modification of the ILO rules and regulations on recruitment and selection. At this stage, the Office is benchmarking on best practices developed by other UN agencies for an adaptation of the roster system to the ILO legal framework on recruitment and selection and ILO Jobs platform. The Office has been actively involved in several for a on mutual recognition of joint rosters within the United Nations system. Further updates on this review will be made by the end of 2021.
9	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. (Para. 89)	In progress The Office takes note of this recommendation. With the support of the Joint Training Council, the Office has reviewed Staff Development strategies of other UN organisations and considered the outcomes of the recent report of the Joint Inspection Unit (JIU). Two documents are being: a general learning framework that sets out the key elements of staff development within the ILO, including references to existing governance documents; and a time-bound strategy, which will be aligned with the HR Strategy for 2022-25, and will provide detailed information on the learning priorities covering the next four years.
10	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 consider mandatory training for managers with development needs in the area of managing underperformance (as identified through their own	Partially implemented The Office agrees with the recommendation. Taking into consideration new challenges due to the COVID-19 pandemic, support, advice and training have been provided in 2020 to managers and staff to optimise their performance and to ensure flexibility in revising appraisal objectives. Specific guidelines for handling complex situations arising from COVID are currently being finalised. Online versions of “Managing My Performance Conversation” have been

	Recommendation	External Auditor's Validation
	performance appraisals and/or upward feedback or as evidenced in the quality of appraisals for staff reporting to them). (Para. 99)	designed and delivered in January and February 2021 (in English, French and Spanish) to support managers and staff. With regard to the specific support to managers in the area of managing underperformance, the Office will adjust its existing programmes or create new ones based on the analysis of the results of the upward feedback exercise for 2020. A blended Performance Management programme, in which participants receive a combination of online training and individual coaching is also being considered.
11	Human resource management – Staff mobility: Enhance its mobility policy monitoring and implementation by establishing a robust tool or mechanism ensuring that information on officials' mobility are readily available. (Para. 109)	Fully implemented The Office takes note of this recommendation. Both functional and geographical mobility are being monitored as stated in indicator 1.1 of the ILO HR strategy approved by the Governing Body. The completion of the International Civil Service Commission (ICSC) tour-of-duty/length of posting in different duty-stations and their hardships are being taken into account for in-grade transfers of Professional staff on Regular Budget core positions.
12	Human resource management – Staff mobility: Reinforce the integration of discussions regarding mobility into the performance appraisal process of staff in the professional category, to emphasize opportunities and encourage mobility assignments. (Para. 119)	Fully implemented The Office agrees with the recommendation. The importance of discussions around professional development, including mobility, is incorporated into the ongoing communications between managers and staff on performance management. Training on professional development discussions (GROWTH conversations) is part of the standard offerings for staff learning.
13	Human resource management – Staff mobility: Explore the possibility of including mobility as a factor to be considered in	Fully implemented The Office agrees with the recommendation. The headers of vacancies for director

	Recommendation	External Auditor's Validation
	the desirable profile outlined in job descriptions relating to Director positions. (Para. 126)	positions have been modified to indicate that previous field experience is desirable.
14	Human resource management – Gender and diversity: Ensure the collaboration of offices as well as departments for an aligned, reconciled and consistent targets/indicator in the different documents regarding gender and diversity from various department and offices towards the achievement of a gender-sensitive workplace. (Para. 135)	Implementation deferred The Office agrees with the recommendation but notes that the targets and indicators in the HR strategy and the ILO Gender Action Plan for 2018–21 have been agreed with the Governing Body. In the context of the preparatory work on the targets and indicators on gender and diversity for the period 2022–25, which will be undertaken in 2021, the recommendation for alignment will be taken into account.
15	Human resource management – Gender and diversity: Develop realistic and workable targets for each UN System-wide Action Plan (UN SWAP) performance indicator, considering limiting factors in the environment in the development of the ILO Gender Action Plan 2022–25. (Para. 141)	Implementation deferred The Office agrees with the recommendation. See response to recommendation 14 above. Consultations with the Gender, Equality, Diversity and Inclusion Branch (GEDI) is underway for the development of 2022–25 indicators.
16	Human resource management – Succession planning: Conduct a regular campaign promoting the importance of the employee profile tool to boost compliance, thus optimizing its benefits in facilitating skills mapping which is vital to sound succession planning. (Para. 149)	Fully implemented The Office agrees with the recommendation. A broadcast was sent out to all staff in March 2021 encouraging them to complete their Employee Profile followed by messages to senior management to boost compliance.
17	Human resource management – Succession planning: Consider drafting a succession plan as one of the output of the upcoming workshop of the Talent Management (HR/TALENT) to have a concrete strategy and ensure preparedness of the	In progress The Office agrees partially with the recommendation. It is not possible to implement a single formal succession plan, as recruitment and selection for key positions in the ILO follows a specific set of procedures. The planned HR/TALENT

	Recommendation	External Auditor's Validation
	Organization to avoid the risk of potential loss of leadership, continuity, institutional knowledge and expertise because of departure. (Para. 159)	workshop was delayed due to COVID impact on the availability of key team members. In the meantime, individual discussions have been undertaken in preparation for the workshop to be delivered remotely in a more effective manner.
18	Human resource management – Administration of justice: Consider a systematic approach to conflict resolution and prevention to ensure that the various actors and bodies involved can coordinate their respective efforts providing a more cohesive framework to address conflict whilst always respectful of the confidentiality of each of the individual cases. (Para. 168)	In progress The Office agrees with the recommendation. Dialogue with all internal stakeholders (Staff Union, Mediator, Staff Welfare Officer) has been initiated before the COVID-19 pandemic. Further consultations on a systematic approach, which will also cover data collection and confidentiality-related aspects, are being held in the JNC with a view to seeking agreement of all relevant stakeholders on the modalities to make the current informal conflict resolutions framework more systematic and cohesive.
19	Human resource management – Administration of justice: Take steps to develop a consistent approach with respect to data collection and reporting of grievances and grievance outcomes to facilitate better monitoring and evaluation of efforts to reduce conflict within the Organization. (Para. 174)	In progress The Office agrees partially with the recommendation, as it depends on the outcome of the consultation process mentioned in Recommendation 18 above. In the meantime, the internal formal conflict resolution data compiled for 2020-21 indicated a steady decrease in the number of formal grievances, mainly due to enhanced coordination at the conflict prevention level. These trends will be assessed together with the statistics of the Joint Advisory Appeals Board (JAAB) and the Mediator as soon as their respective reports for 2020 become available.
20	Human resource management – Administration of justice: Facilitate the updating and enhancement of the user's guide to ILO conflict prevention and resolution procedures as part of efforts to promote a respectful work environment free from violence	In progress The Office agrees with the recommendation. The user's guide to ILO conflict prevention and resolution, including the new aspects regarding the anti-harassment provisions, has been updated in draft format including

	Recommendation	External Auditor's Validation
	and harassment and to help ensure a consistent approach to conflict resolution across the Organization. (Para. 179)	inputs from all concerned stakeholders and will be finalized by June 2021.
21	Human resource management – Ethics and standard of conduct: Enhance the Ethics Office's visibility, with the current constraints in Office time allocation, in the ILO intranet and webpage by updating, uploading and enhancing the visibility of Ethics intranet page including its Ethics e-learning module and for easy access of potential whistle-blowers to communicate relevant information. (Para. 186)	In progress The Office agrees with the recommendation. The Ethics Office is highlighted on the updated "Transparency and Accountability" website which can be directly accessed from the ILO public and intranet main pages. In addition, the design of dedicated webpage with information on reporting misconduct and protection from retaliation is underway, with a target for deployment by June 2021.
22	Human resource management – Ethics and standard of conduct: Facilitate the inclusion of the provision for external and independent appeals process for reporting persons in case of inadequate protection or when a prima facie case was not determined, in the whistle-blower policy. (Para. 191)	Fully implemented The Office agrees with the recommendation. A revision of the Office Directive entitled "Reporting misconduct and protection from retaliation" (IGDS 551) has been published on 5 March 2021, introducing the possibility for staff members to request an external and independent review of non-prima facie determination by the Ethics Officer.
23	Human resource management – Staff survey: Facilitate the implementation of the mental health and well-being survey and adhere to UN suggestion in its corresponding report on sexual harassment that survey be re-administered in two-year intervals. (Para. 202)	Fully implemented The Office agrees with the recommendation. A specific survey on mental health and wellbeing during COVID-19 pandemic was undertaken, soliciting feedback on the personal situation of staff, including work-life balance, workload and well-being, and the main areas of Office support in response to the COVID-19 crisis. The Office communication content, frequency and support was rated by the ILO staff as very satisfactory. The majority of staff reported that they have access to IT tools, support and services enabling them to telework effectively. The first draft of a <i>Mental Health and Wellbeing framework</i> that includes recommendations about the

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		implementation of the feedback form the Survey is currently under consideration by the "stress in the workplace working group" of the Committee on Occupational Safety and Health (COSH).
24	<p>Control environment in regional and country offices:</p> <p>Implement strategic solutions to strengthen their supervisory and monitoring controls over critical processes and decisions to ensure operational efficiency and effectiveness; and better support the certification made by the field office directors of the state of their control environment. (Para. 208)</p>	<p>Implemented on an ongoing basis</p> <p>The Office agrees with the recommendation and notes that the most urgent office-specific recommendations made in specific country audits have been addressed immediately, while the overall supervisory and monitoring controls are being strengthened at a more strategic level.</p> <p>Coordinated support efforts are being made through regular communications and knowledge-sharing of the global finance team and the regional administrative workshops. Certification made by field office directors on the internal letters of representation is reviewed by the regional offices with a view to providing targeted support and strengthening control in critical processes.</p>
	ILC.108/FIN – 2018	
25	<p>Staff Health Insurance Fund (SHIF):</p> <p>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</p>	<p>Partially implemented</p> <p>The Office agrees with the recommendation. The criteria and procedures for referrals of suspicious claims to IAO 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, such as frequency of invoices, invoice to salary ratio, etc. As a result, referrals of potential</p>

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	insured members pending the results of a formal investigation by the IAO. (Para. 23)	cases of fraudulent claims to IAO have reduced in the past two years. The finalization of the SOP planned in 2020 has been delayed due to the change of SHIF's priorities to dealing with more urgent issues related to COVID-19, for which close coordination with other mutual UN health insurance operating with Health Insurance Information System (HIIS) system is ongoing. Once COVID-19 issues are sufficiently addressed, SHIF will resume the work on the review of the SOP detection. This information was used to review and enhance the existing SOP.
26	<p>Resource mobilization – Resource mobilization organizational structure and capacity-building:</p> <p>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. (Para. 51a)</p>	<p>Partially implemented</p> <p>The Office agrees with the recommendation. The IGDS on Project Cycle Management has been revised and will be published in the second half of 2021 to further clarify the roles and responsibilities related to resource mobilization.</p>
27	<p>Resource mobilization – Resource mobilization organizational structure and capacity-building:</p> <p>Ensure inclusion in the performance appraisal of staff involved in resource mobilization of the corresponding agreed outputs and measure of performance to assess results achieved and contribution made to the attainment of organizational outcomes on resource mobilization. (Para. 51b)</p>	<p>Fully implemented</p> <p>The Office agrees with the recommendation. Starting from the 2020 performance appraisal cycle, standardized outputs on resource mobilization for staff positions frequently involved in resource mobilization have been completed and staff members involved in resource mobilization have been encouraged to add these outputs to their performance appraisal forms to foster alignment with organizational priorities and assess results achieved.</p>
28	<p>Resource mobilization – Resource mobilization organizational structure and capacity-building:</p> <p>Refine the corporate staff development strategy on resource mobilization by</p>	<p>Fully implemented</p> <p>The Office agrees with the recommendation. The Development Cooperation Strategy for 2020-25 was endorsed by the Governing Body at its 340th session in November 2020.</p>

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	aligning it to the context of United Nations Reform and incorporating it in the 2020–25 Development Cooperation Strategy to ensure a unified approach towards efficient and effective resource mobilization capacity-building. (Para. 51c)	An accompanying implementation plan for the Strategy was also endorsed by the Governing Body at its 341st Session (March 2021). One of the specific deliverables in the Strategy was to enhance the capacity of ILO staff in areas related to partnerships, resource mobilization, quality design and implementation of large and integrated programmes.
	ILC.107/FIN – 2017	
29	<p>Programme results monitoring – Evidence-based monitoring:</p> <p>Ensure that its results monitoring mechanisms are enhanced through the:</p> <p>a. improvement of data collection methodologies by including additional parameters in its OBW and unit workplan (UW) on data collection methods, data sources, frequency of collection, among others to provide more compelling evidence of programme results;</p> <p>b. production of well-defined evidences out of the data collected as early as the first monitoring exercise to provide better decision base to programme monitors; and</p> <p>c. optimal use of its information systems to support results monitoring through system interfaces to fully document the review and results monitoring process in a given programming cycle. (Para. 30)</p>	<p>Fully implemented</p> <p>The Office agrees with the recommendation. Detailed technical notes for the output indicators of the P&B for 2020-21 were developed with a view to ensuring consistency in the measurement approach and common quality standards within and across outcomes, and supporting better planning, monitoring and reporting on results.</p> <p>In March 2021, the Office has deployed an online corporate monitoring system to support the implementation of the Programme of Work 2020-21 (Outcome-based Workplans Monitoring Dashboard).</p>
	ILC.106/FIN – 2016	
30	<p>Accountability framework:</p> <p>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 (Para. 26)</p>	<p>In progress</p> <p>The Office agrees with the recommendation. IGDS 137 <i>"ILO accountability framework"</i> and IGDS 195 <i>"The ILO accountability framework: key standards and mechanisms"</i> are under review with particular attention given to the inclusion of specific tools used to measure,</p>

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		report and assess performance, in addition to the current presentation of accountability mechanisms based on definitions of offices/functions. Due consideration is taken on its compatibility with the new results framework, recent policy developments in ethics, the full implementation of IRIS worldwide, the latest tools and dashboards deployed, as well as recent recommendations made by the auditors. The updated IGDS documents are targeted for publication in 2021.
31	<p>Procurement feedback and grievances:</p> <p>a. institute a Vendor Complaints and Grievances Policy to enhance procurement management and to foster better accountability and relationship between the Organization and its vendors; and</p> <p>b. develop a vendor sanctioning policy to support procurement activities and enhance procurement guidelines, all within the frame of control and accountability and meets the requirement of the UN current practice (Para. 33)</p>	<p>Fully implemented</p> <p>The Office agrees with the recommendation.</p> <p>Part (a) of the recommendation has been fully implemented with procedures for vendor debriefing and bid protests having been published.</p> <p>On part (b) of the recommendation, the <i>Terms and Conditions applicable to ILO Contracts</i> have been revised in March 2021. They incorporated language that clarifies vendor responsibility and accountability, including: the observance of laws, duty of care; sustainability; performance issues; audit and investigation; and monitoring. They also aligned with UN system requirements with respect to responsible business practices, prohibited conduct; sexual exploitation and abuse, and addressed other new scenarios such as access and data protection.</p> <p>The revised Terms and Conditions are applicable with immediate effect to all purchase orders for goods and services issued as well as all tender document templates.</p>
32	<p>Asset accountability policy and procedures:</p>	<p>Partially implemented</p> <p>The Office agrees with the recommendation. A revised version of the internal procedure</p>

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	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 (Para. 38)	on the management of furniture and equipment has been drafted, circulated for comments. The new version 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. It is planned for publication in 2021 taking into any latest instructions on inventory and safeguarding of assets under teleworking conditions.
33	<p>Ethics:</p> <p>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;</p> <p>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;</p> <p>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</p> <p>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. (Para. 46)</p>	<p>Partially implemented</p> <p>The Office agrees with the recommendation.</p> <p>On part a): the Whistle-blower Policy was revised into a policy entitled "Reporting misconduct and protection from retaliation" (IGDS 551) in November 2019, which was again updated in March 2021. The revised policy specified that any request for protection from retaliation would be subject to a preliminary review by the Ethics Officer and an investigation by the IAO in case of a prima facie determination of retaliation.</p> <p>On part d): the anti-fraud policy was revised in October 2017, which included the mechanism for investigation of cases that may involve Executive Heads.</p> <p>On part b) and part c): the Principles of Conduct for Staff and the Conflicts of Interest Policy are currently under review.</p>

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34	<p>RBM – Programme results monitoring – Overall monitoring system and mechanisms:</p> <p>Craft a programme monitoring framework including the related tools that will enable a transparent, reliable, uniform and evidence-based assessment of progress on the achievement of planned results. (Para. 106)</p>	<p>Fully implemented</p> <p>The Office agrees with the recommendation. An online corporate monitoring system has been developed to support implementation of the Programme of Work 2020-21 (Outcome-based Workplans' Monitoring Dashboard), which was deployed in March 2021.</p>

► 7. Appendix

Additional unaudited information

► Details of net assets revenue and expense by fund for 2020 (US\$ thousands)

	Net Assets 31 Dec 2019	Revenue 2020	Expense 2020	Foreign Exchange gain (losses) 2020	Net result 2020	Deficit financing	Adjustments to Net Assets	Net Assets 31 Dec 2020
Funds with approved budget:								
Regular Budget	130 805	399 156	(367 870)	34 555	65 841	(43 394)	(13 585)	139 667
CINTERFOR	1 191	1 570	(1 542)	(2)	26	-	(3)	1 214
ITC	18 196	38 008	(35 946)	(784)	1 278	-	1 950	21 424
Subtotal	150 192	438 734	(405 358)	33 769	67 145	(43 394)	(11 638)	162 305
Voluntary Contribution activities								
Development Cooperation Projects	-	283 299	(283 091)	(208)	-	-	-	-
RBSA	51 667	18 932	(13 515)	(5)	5 412	-	(15)	57 064
Subtotal	51 667	302 231	(296 606)	(213)	5 412	-	(15)	57 064
Subsidiary funds								
Programme Support Income	96 847	28 956	(20 632)	212	8 536	-	(105)	105 278
Publications	1 823	198	(211)	(1)	(14)	-	-	1 809
Information Technology System	1 688	15	-	(1)	14	-	-	1 702
Research	16 028	144	(373)	(14)	(243)	-	(2)	15 783
Gifts, Grants and Reimbursable Costs	5 685	3 006	(3 507)	2	(499)	-	(2)	5 184
Land and Buildings	600 197	19 673	(167 306)	(9 151)	(156 784)	-	97 318	540 731
Building Accommodation	24 023	171 078	(12 096)	19 083	178 065	-	(5)	202 083
Working Capital	-	-	-	2 443	2 443	1 413	-	3 856
Income Adjustment Account	25 027	1 741	(626)	4 817	5 932	41 981	-	72 940
Prior Period Surplus	821	8	-	85	93	-	-	914
Special Programme Accounts	6 616	58	(329)	629	358	-	-	6 974
Terminal Benefits	13 577	9 622	(4 605)	(21)	4 996	-	3 763	22 336
SHIF	61 802	53 649	(48 116)	3 864	9 397	-	-	71 199
ASHI Liability	(1 842 305)	-	(69 894)	-	(69 894)	-	(133 936)	(2 046 135)
ASHI Reserve	8 938	1 736	-	(7)	1 729	-	-	10 667
Other Funds	7 765	3 363	(3 730)	(5)	(372)	-	113	7 506
Subtotal	(971 468)	293 247	(331 425)	21 935	(16 243)	43 394	(32 856)	(977 173)
Inter-fund elimination	-	(264 099)	264 099	-	-	-	-	-
Total	(769 609)	770 113	(769 290)	55 491	56 314	-	(44 509)	(757 804)